A PELICAN BOOK

GERTRUDE WILLIAMS

Economics of Everyday Life

An examination of the economic issues which directly affect day-to-day life in this country, including the rise and fall of prices, the Dollar Gap, international trade, and the wages question

A PELICAN BOOK
A PELICAN BOOK
A PELICAN BOOK

315
X

ABOUT THIS BOOK

The title of this book reveals its intention - to analyse in plain, non-technical language some of the important economic issues which affect life to-day in this country. It deals with matters that are of interest to everybody because they are closely allied to the daily life of the individual. Why do prices go up and down? What is the Dollar Gap and why does it matter? Why do some of us earn £300 a year and some £3,000? Is it chance that some firms are big and others small? Who really pays for advertisements? Is monopoly anti-social? Would we be better off if we were not so dependent on international trade? These and many other vital questions are discussed in such a way that the reader is able to understand the complex factors involved in trying to reach sensible answers for, as Mrs Williams says, 'The most valuable lesson we can learn from a study of economics is distrust of the man with a panacea; you can almost always be sure that the snap answer is the wrong answer.'

The author is Reader in Social Economics in the University of London. She has also written and lectured widely to popular audiences, and appreciates the particular difficulties of the non-specialist in getting a grasp of the fundamentals of economics. This succinct outline of the subject, specially written for Pelicans, is designed to help the modern citizen to keep up with the rapid, and often dramatic, course of economic development in post-war Britain.

'It is a measure of her success that she makes the whole subject sound like very little more than applied commonsense, but commonsense applied to familiar situations in a way that picks out a consistent pattern and shows the reader that the "economic aspect" is nothing more abstruse than a methodical selection from facts which, in a muddle-headed way he knows already.' – Economist

G: 61

PELICAN BOOKS

A221

THE ECONOMICS OF EVERYDAY LIFE

GERTRUDE WILLIAMS

330-WIL
G71

553

1119

S.No-618

18, 11.3, 239

GRAMASEVAKS TRAINING CENTRE
16 APR 1955
T. KALLUPATTI

P.B.S.

GERTRUDE WILLIAMS

THE ECONOMICS OF EVERYDAY LIFE

PENGUIN BOOKS
MELBOURNE · LONDON · BALTIMORE

Penguin Books Ltd, Harmondsworth, Middlesex

U.S.A.: Penguin Books Inc., 3300 Clipper Mill Road, Baltimore 11, Md
[*Educational Representative:*
D. C. Heath & Co., 285 Columbus Avenue, Boston 16, Mass]

AUSTRALIA: Penguin Books Pty Ltd, 200 Normanby Road,
Melbourne, S.C.5, Victoria

AGENT IN CANADA: Riverside Books Ltd, 47 Green Street,
Saint Lambert, Montreal, P.Q.

—

Made and printed in Great Britain by
The Whitefriars Press Ltd, London and Tonbridge

—

First published 1950
Reprinted 1951
Revised and reprinted 1953

315
x

CONTENTS

FOREWORD 7

1. INTRODUCTION: WHAT IS ECONOMICS ABOUT? 9

2. PRICE ECONOMY AND PLANNED ECONOMY 18

3. NATIONAL WEALTH AND PRODUCTIVITY 39

4. THE STRUCTURE OF INDUSTRY 50

5. THE LOCATION OF INDUSTRY 71

6. MARKETS AND SHOPS 93

7. WHAT IS MONEY? 116

8. IMPORTS AND EXPORTS 131

9. INCOMES AND HOW WE GET THEM 166

10. UPS AND DOWNS IN PRODUCTION AND EMPLOYMENT 215

INDEX 233

FOREWORD

THIS book is intended for the ordinary citizen who is interested in knowing something of the economic issues which lie behind the political problems of the day. Whether we know anything about the principles of economics or not we all find ourselves taking part in discussions on economic questions; e.g. should pubs be nationalized, the dollar gap, are prices too high? should the wages of such and such workers be raised? and so on. But, even more important, we spend our time in making economic decisions which may have wide repercussions. Practically everything we do involves the use of scarce resources. We may think it a matter that affects nobody but ourselves when we decide to buy a woollen shirt instead of a cotton one, to buy a packet of cigarettes or give up smoking, to go to the movies or to take a day off and go fishing. Yet every one of these seemingly simple decisions has innumerable reactions on the whole of our economic organization and, consequently, on other people's lives. We cannot escape this responsibility and, therefore, it is worth while to know something of how our economy works.

This book will not make the reader into an economist; its aim is to give him some idea of the nature of economic problems. One of the most useful results of a study of economic issues is a certain attitude of mind and the realization that there is no simple hundred per cent answer to most economic questions. The same thing may be good in some circumstances and bad in others, and you have to look all round the problem and weigh up the costs involved for what you are going to achieve before you can decide whether it is worth

doing or not. Perhaps the most valuable lesson one can learn from a study of economics is distrust of the man with a panacea; you can almost always be sure that the snap answer is the wrong answer.

CHAPTER I

INTRODUCTION: WHAT IS ECONOMICS ABOUT?

ECONOMICS is about the everyday things of life; how we get our living and why sometimes we get more and sometimes less. Nowadays everybody realizes the important part played in their lives by economic factors because the war, and the problems left by the war, have upset the ordinary routine to which we had become accustomed. There was a time when we took it for granted that the shops should be full of things we wanted to buy, and our only concern, from the economic point of view, was in wondering how we could get enough money to allow us to choose from amongst the quantity and variety of goods offered to us. As long as we had a job which brought in a reasonable income per week we assumed that there would be the things to buy and, unless prices altered very rapidly, we didn't usually bother our heads much to inquire why a loaf of bread cost 3d. and a packet of cigarettes cost 6d. Since the war, however, we have been brought up sharp against the complexities of the economic world; and the scarcity of hundreds of the articles on which we had come to rely has made us realize the extent to which we are dependent on the four corners of the world for the goods we use in our day to day life.

There was a time when each family actually produced for itself most of the things it needed for its everyday life; it grew its own food, and made its own clothes and household equipment. In such circumstances there is an obvious and inescapable connexion between the resources of the neighbourhood, the work done by the people who live there and the kind of life they live; and nobody bothers very much to

speculate about the whys and the wherefores. If you have little to eat, it is because the land is not fertile, or a storm destroyed the crops, or you have not worked hard enough – something that is easy to understand. There are still some countries, India, for example, or China, where that kind of production is still the rule, but it is a long time since it ceased in this country and, for the matter of that, it is fast disappearing all over the world. Apart from growing a few vegetables in the garden, or knitting a jumper or two, most of us have no idea how to make the dozens of different things we use in the course of a day and should not have the slightest conception how to set about getting them if we could not buy them at a store. The breakfast table seems a humdrum affair enough; but if we think of the origin of the goods that were collected on it this morning it sounds more like the gift of a fairy godmother. The porridge oats came from Canada or Scotland, the wheat for the bread from U.S.A. or Argentine or, perhaps, England, the bacon came from Denmark or Ireland, the butter or margarine from New Zealand, the tea from India or Ceylon, the coffee from Brazil, the marmalade was made from oranges from Spain or California or Palestine with sugar from the West Indies. The tablecloth was made of cotton grown in Egypt or America or India, and woven in Lancashire, the cups and saucers and the knives and forks were almost certainly manufactured in England. All these things were bought at a shop and paid for with money earned by work as a clerk or an engineer or a tram-driver or punching eyelet holes in shoes, for we specialize in doing one thing – it may be only a tiny process in the manufacture of an article – and with the payment we get for our work we buy the things we want from others.

In the modern world, therefore, the relationship between work and wants is much less direct than it used to be, for most of us spend our time making things for sale and not for our own use. This specialization, which is the characteristic

of the modern economy, enables us to enjoy things of which our grandfathers never dreamed, motor cars and bicycles and planes, vacuum cleaners and refrigerators, rayon and plastic clothing, more varied foods, and all sorts of other goods, but it also makes the world very much more complex. We make for a market, so that the price we get from what we do, and the prices we have to pay for the things we want to buy, come to be of dominating importance, and anything which alters these prices has an immense influence on our lives. Our whole livelihood may be ruined by something happening in a far corner of the world; the Lancashire cotton weaver, for example, may find his pay packet smaller because the boll weevil has destroyed the cotton crop in the U.S.A. or because Indians desire national independence. Or the price of coal may go down because scientists find out how to harness water power to generate electricity in Italy.

We are all, in fact, bits of a gigantic jigsaw puzzle, and it is not until we begin to see the pieces fitted together that we get any idea of the general pattern. Who decides what shall be produced in different places and arranges for it to be done? Why does the bacon come from Denmark and the cutlery from Sheffield? Who settles how much each of us has to spend – why do some of us get £6 a week and others £5,000 a year?

The obvious question to ask at this point is, Why bother about the general pattern? Why cannot we content ourselves with doing our work and spending our incomes without bothering our heads about the way in which it fits together? The answer is that we bother because we are not satisfied with it and would like it to be different. We know that there are hundreds of thousands of people living in narrow poverty, that many are perpetually haunted by the fear of the future and the unemployment it may bring, that there is an enormous amount of misery and disease, that thousands live in insanitary, overcrowded houses, and that all sorts of

unhappiness might be prevented by different economic conditions.

Need we be poor? Are we producing as efficiently as we could? and, if not, why not? and how could we do better? Are we producing the 'right' things? What are the 'right' things? Who ought to decide this and why? Is specialization always a 'good' method of production? and in what sense 'good'? Might we become too dependent on foreign supplies and does this matter? Is it better to buy goods produced in your own country? 'Better' in what sense? Does it make one richer? or safer? or what? Is monopoly better than competition? always? sometimes? in what circumstances? Why does a miner usually earn less than a doctor? and what would happen if you insisted that they should get the same amount? Why does the Government settle some prices and not others; and who settles the price if the Government doesn't?

These are the sort of questions that a study of economics helps us to answer, and they are the kind of questions which underlie the issues on which the ordinary citizen votes at elections. If a motor car breaks down nobody but a fool expects to be able to repair it without some elementary understanding of the mechanism, and the economic system is a good deal more dangerous to tinker with than a car. Unfortunately it is also much more difficult to understand, and there are two main reasons for this.

1. The various bits and pieces of a car are identical in all the cars of one pattern, and you know exactly how each bit works in relation to the others. But the bits of the economic system are human beings who are not identical and whose actions cannot be precisely calculated or foretold.

2. More important than this variability of human actions is the fact that you cannot separate people's economic activities from the remainder of their lives, and that all sorts of things which are not primarily economic influence the way in which men and women behave in earning and spending

their incomes. We are not robots, and there is no such thing as an economic man. We all live in social groups, and the things we value or despise, the kinds of behaviour that we extol or condemn, or simply take for granted as natural, and the ends for which we are ready to make sacrifices, are all products of our cultural codes of behaviour. From our earliest moments we are shaped by the social forces in which we live – even as babies we are kissed for one kind of behaviour and scolded for another – so that by the time we begin to take a place in the wider social groupings, at school, at work, or in the outside world, we have come to respond to certain stimuli and reject others. Our scales of value are not individual ones; they are the personal variations we make on the social evaluations fixed by the community in which we have grown up.

We have only to think of the difference between the U.S.A. and, say, the greater part of China to realize the influence of this on economic activities. In America it is generally accepted that you ought to try and go one better than your father, and the man who, by daring experiment and readiness to break with the past, increases his material wealth, is the one on whom the stamp of social approval is set; in China it is exactly the reverse – the palm is given to the wisdom of age and there is the strongest urge to follow the traditional path. It is not surprising, therefore, that America and not China is the home of mechanical invention and higher material standards of living.

These two points are worth stressing because it is necessary to realize that economics is a study of a living and working society and not a blue-print for an ideal community. The aim is not to find out how people ought to behave in different circumstances but how, in fact, they do behave in the circumstances in which they live. By patient observation we try to discover if there are ways of reacting which are so general that we can use them as guides in our attempts to

prognosticate the future, and it is to these generalizations, based on observed facts of human behaviour, that we give the name 'economic laws'. Such laws are not, therefore, in the same category as the laws of chemistry or of natural science; we cannot say that, given such and such circumstances, such a result is bound to ensue; all we can say is that it is likely to ensue with the proviso, either implied or explicit, that there may be – will be – innumerable exceptions to the general rule. It is, indeed, for example, true in a general sense that the majority of people in an industrialized country such as England are eager to get as good a money return for their work as they can, so that a rise in wages in one industry may be expected to draw larger supplies of workers into it and a fall to cause many workers to withdraw and find other jobs. By and large, and given time for changes in wage rates to become widely known, this is true; but it does not mean that every person always goes to the job that pays best in this way. A man may be attached to a particular kind of work, or to the firm that has employed him for some time, or may not want to move from the locality where his friends and family live, or may prefer country life to urban (or the other way round) or may prefer the 'amenities' that go with one type of work, such as higher social prestige, or greater freedom, or what have you. In a society in which the material equipment of well-being (good furniture, good clothes, the frig. in the kitchen, etc.) is given the highest place in social evaluations changes in wage rates are likely to have a much more direct influence on supplies of labour than in one in which all these other factors play a bigger part. What adds to the difficulty is that the pattern of behaviour is not a static thing – fixed once and for all – but is continually being modified by new circumstances and ideas, and one must be forever on the alert not to assume that the series of economic reactions observed in the past will inevitably repeat itself without modification in the future. There is no doubt, for

example, that during the present century both security and leisure have come to play a much bigger part in the economic calculations of the wage-earner than they did in his father's time, and this must be taken into account both in the attempt to explain what has happened in the occupational distribution of the population and in the efforts we make to alter it if we think this necessary.

Blunders are often made, and a good deal of ill temper is engendered, through ignorance of the influence of the cultural pattern on economic behaviour, when two communities of widely differing types of social organization are brought into contact with one another. When the colonization of Africa began, Western business men could not understand why native populations were unwilling to work regularly for fixed hours throughout the year, when the material rewards they could get for doing so were obviously so much higher than they could make on their own pieces of ground. They found it difficult to accept the fact that many Africans rated freedom from routine, idleness, and occasional ostentatious spending higher than the elaborate equipment of living which takes so high a place in the social evaluations of Western communities; and they thought they must be immoral if they were unwilling to work for the kind of life that the Western wage-earner thinks desirable.

If you remember what kittle cattle human beings are you will not blame the economist because he is unwilling to make precise and categorical statements about people's actions in getting a living. Almost everything he says must be hedged about with qualifications and modifications if it is to have any relation to truth, for it is no use pretending that men are machines when they are not. But there is another accusation brought against economists on rather different grounds.

What is the use of asking economists for advice, it is asked, when they never agree on what should be done? You find economists who support free trade and economists in favour

of tariffs; you find some who believe in the planned economy and others who are just as strongly in support of private enterprise, and so on. Whatever question you consider, on which you think the economist could give you an expert opinion, you are fairly sure to find divided ranks. So why bother with their views at all? There are two answers to this criticism. The first is that economics is like every other intellectual discipline; it can develop only by accumulating more and more knowledge and by more and more careful experiment in the interpretation of the facts it collects. How often you find that doctors disagree in the diagnosis and treatment of a disease; but you do not, therefore, say that medical science is useless and that it is never of any value to consult a doctor. The same is true of economics. And moreover there is the added difficulty that the economic body is perpetually changing and that the economist is compelled to try to make his analysis while the very thing he is studying is in process of becoming something else.

But there is a second and more important answer. The economist is concerned with the production and exchange of wealth; that is, he is concerned with that as an economist. As a human being and a citizen he is, of course, as concerned as anybody else with matters of right and wrong, virtue, duty, beauty and the rest. But on these he is no more an expert than anybody else. He can give an expert opinion that, say, if we insist on growing all our cereals within our own political boundaries our standard of living is bound to fall and by so much, but he cannot say that we are *wrong* to do so, because man does not live by bread alone, and we may believe that it is better to eat less, but to have a larger proportion of the population engaged in agricultural pursuits, or to be less dependent on foreign supplies in case of war, or put forward any other objective we value. As getting a living is only part of a man's life there are practically no questions that are purely economic in scope, and we have always to balance the

effect of our actions on our wealth with the other non-economic results they are likely to have. The economist can give an opinion on the economic side of the matter; but he has no more right than anybody else to claim a special hearing on what constitutes the good life or right conduct.

CHAPTER 2

PRICE ECONOMY AND PLANNED ECONOMY

FROM 1939 until recently the words 'rations', 'points', and 'coupons' played a large part in our conversation, for the amounts of many commodities that we could consume were strictly limited by the Government. In some cases a maximum amount per person was fixed for each individual or household, for example, butter, sugar or coal; in others, such as groceries and clothes or sweets, the quantity available to each of us of a group of articles was restricted, but we were given freedom of choice within the group; in still others, eggs, milk, vitamins, domestic help and so on, the right to obtain the commodity or service has at times been limited to certain types of consumer – children or old people or the sick. But whatever the method employed the objective has been the same – to ration in as fair a way as possible a scarce supply of something which is wanted by a great many people.

Does this mean that before the war, when there was no rationing in the present meaning of the term, we could all have as much of these things as we wanted? Could we slap on the butter and jam with a lavish hand and throw away our clothes as soon as we grew tired of them or they showed a sign of wear? Of course not. Most of us had no more of these things before the war than we have now, and many had considerably less. The difference is that before the war the rationing was done by prices and now it is done by Government decree. We were then perfectly free to buy as much of a commodity as we liked provided we could pay the price asked for it, and we rationed *ourselves* to the amounts we thought we could afford. Now we are not allowed to buy

more than a certain amount whatever the price we might be ready to pay. These are two different methods of sharing out goods when the supply is not enough to satisfy everybody, and there is a good deal of difference of opinion about which is the better way of the two.

Scarcity is not created by war; it is a permanent characteristic of all human society and is the basis of the problem that faces, and always has faced, the human race whatever its form of organization. It springs from the fact that the material resources of the world are limited and that our ability to make use of those resources is even more limited by our ignorance. Everything that we need to satisfy our wants has to be derived finally from two sources – the natural resources that are available and the human ability to make use of them. As our knowledge grows and we increase our skill, we can exploit more and more of the opportunities that nature offers to us. The increase in communications, for example, has brought within our reach the resources of vast areas that were closed to us before; the development in scientific knowledge has made accessible many valuable minerals from depths below the earth's surface that could not be reached by earlier generations. Railways, steamships and aircraft have vastly extended the 'neighbourhood' on whose resources we can draw, and our increasing skill – both of techniques and of organization – enables us to get more out of what we can reach. But whatever the rate of development may be there is, at any one time, a limit to the total of what can be produced. Here and now, there is only so much of the material resources of the world accessible to us and there are only so many people capable of work and endowed with the capacities and skills that they have developed. We may know that there are immense mineral deposits waiting to be tapped in the Arctic Circle, but, until we find out how to get them, they might as well not exist as far as the satisfaction of our present wants is concerned. No doubt we waste a lot by

stupidity; but even if the very best possible use is made of all the resources we can reach, there is still a limit to what can be produced out of them, and it is out of that total that we must all satisfy our wants. If our wants were smaller than the amounts we could produce we should not, of course, be faced with any problem of choice and, indeed, in some very simple societies this is the case. Where the pattern of life is both rigid and simple and nature is fairly generous, as was the position in some parts of Africa and the South Seas before the advent of the white man, the adjustment of wants to the wealth available was so much a matter of unchanging custom, often endowed with religious significance, that neither the group nor the individual found it necessary to make a conscious choice. But the moment this unvarying rigidity of pattern is subject to change the problem of choice presents itself, and in the type of civilization with which we are more familiar, in which we are acutely conscious of an unending series of wants clamouring for satisfaction, the problem of choice is only too obvious to us.

Very early in our childhood we are taught that you can't have your cake and eat it, and this is only putting in another way the fact that you can't use the same resources to produce two separate things at the same time. If you want to grow cabbages on a bit of land you cannot also use it for a tennis court; if you spend a couple of hours in a cinema you can't also use them for digging the garden or painting a picture or mending the boots. You have to choose which of the many possible uses to which you could put the same materials or the same time is the one you prefer, in the knowledge that the price you pay consists of all the other alternatives you have thereby given up.

This inescapable fact has nothing to do with any particular form of economic or social organization; it is part of human experience. As far as we can judge, there is no limit to wants; in fact, the growth of civilization is largely the

development of new wants or new kinds and varieties of old wants – physical, intellectual, emotional, aesthetic, spiritual. Our desire for any one object may be quickly satisfied – even the heartiest trencherman finds that his stomach's capacity is limited – but for wants as a whole there seems no end. We get more choosey and want more different kinds of satisfaction, greater varieties of food; houses with rooms for specialized purposes such as sleeping, washing, cooking, playing, reading; clothes suitable for various occasions; music, pictures, books, churches, tennis racquets and golf clubs and all the rest of the paraphernalia for recreation; or more leisure to sit and stare. All these different wants are jostling for preference and competing for the limited productive resources available. Whatever we do – or don't do, for doing nothing uses up time and wears out clothes and tables and chairs – has to come out of the wealth whose total is fixed by our resources and effort. Some method has to be evolved to decide the order of priority in satisfying these many wants – whose wants shall be satisfied first, which wants shall be satisfied first, how much of one want shall be satisfied before starting on another, and so on – and it is principally in the different methods that have emerged for this purpose that the main differences between present-day economic societies consist. Two rival ways of doing the job have developed; in one the decision is made by State regulation, i.e. the planned economy, in the other it is left to the pull of individual choices, i.e. the price economy. Since the war the conflict between these two methods of cutting our coat according to our cloth has become one of the most crucial of all the issues on which we have to make up our minds, so it is worth while to examine them a little more closely to see what is involved in them.

In a price economy the things that are produced are those for which consumers are willing to pay enough to make it worth somebody else's while to put them on the market. It is

assumed that the amount we are ready to pay is an indication of the value we put on a thing, so that the more important it is to us the more we are willing to pay. We have, of course, to learn by experience and we may make mistakes, but most of us are sufficiently alert to our own interests not to go on buying something that we don't like or to pay more for it than we have found it to be worth. The prices we are ready to pay for different things do not remain the same for ever, but as our desire for them changes, so too do the prices we are willing to pay, and we can thus make known our individual idiosyncrasies. If I decide that I should like to be vegetarian during the summer months, I can use the money I save on meat to buy more butter and eggs than I do in the winter and then change back again when the warm weather is over. If I bother to give careful attention to my budgetting I can make sure that I never spend a shilling on, say, going to the cinema that would have given me more pleasure if I had spent it on something else, e.g. a few cigarettes, or an ice, or put it towards my savings for a new radio or the needs of old age; and in that way I can get from my income the maximum amount of the kinds of satisfaction that appeal to my particular needs and tastes. It is true that there are certain things that figure in practically everybody's expenditure because they are part of the customary way of living in the country in which one lives, but there are almost as many variations on the theme as there are individuals in the community. Some people get a lot of pleasure from being well-dressed, some from having seen the latest film, some from food, or the evening drink at the local, or having a bit on the dogs, some from the sense of security that comes from adding to the nest egg, or from the knowledge that the family is well provided for; and the price system allows each person to lay out his income according to his fancy by buying more of one thing and less of another.

If you think of your own experience as a consumer you will realize that I have oversimplified the buying process. We

don't, as a matter of fact, ever think of the various lines of expenditure as being in direct competition with one another. We don't think of saying to ourselves 'I prefer modish dressing to food, so I'll live on bread and water and put all my money into clothes.' It is rather 'I won't buy chicken if it is expensive, but eat mutton stew instead and spend the money I save in that way on an extra pair of stockings.' As with all our purchases we are always considering the little more or less. If the price of something we like goes up we don't stop buying altogether, but we buy a little less than we did before; and if the price goes down we buy a little more. But the 'little more or less' is not always the same. The more important a thing is to us the more difficult we find it to cut down our consumption and the less effect do changes in its price have on the amount we buy. Such demands which respond only slightly to changes in price are called 'inelastic'. Since the beginning of the war the price of cigarettes has multiplied threefold, but the number of cigarettes bought has not fallen much, for the habit of smoking has become so ingrained that many people find it easier to sacrifice other things that they used to buy, in order to have enough money left for cigarettes. There are other things, however, that you buy gladly if you can get them at a low price, for example, peaches or books, but you cut down your purchases without a pang if the price rises even a little. Such demands are said to be 'elastic' because they stretch out or shrink greatly when the price alters.

I have purposely chosen these particular commodities for my illustration because of another point on which it is important to be clear. Many people think of inelastic demands as being associated specially with 'necessities' and elastic demands with 'luxuries'. This is not true unless we remember that the term 'necessity' itself requires definition. What is essential to one person is a luxury to another and a matter of no concern at all to a third. How we value an article depends on (a) the customs of the country; (b) the stage of social and

economic development; (c) our own income; and (d) our personal tastes. All these can be better appreciated by illustration.

(a) In this country bread, made of wheat, is one of the staple foods, but in India and China rice, not wheat, is the prime necessity. We groan if the price of bread goes up but do without rice pudding with equanimity; in the East it is the other way round. Changes in the price of tea matter much more in England than in France, where coffee has pride of place. In England wine is considered a luxury for the rich, in France it is the normal drink of the roadmender and the peasant.

(b) The customary pattern of living is not fixed once and for all, but it changes as circumstances and new techniques bring different goods within the scope of the more modest incomes, so that articles of consumption which were once thought of as the greatest luxuries for the rich, or which were not known at all, come to be looked upon as basic necessities of life. We have only to compare the number of foods that enter into even our post-war restricted diet with the budget of a working-class family of the early part of the century to realize how rapidly and widely the constituents of the category 'necessities of life' change from one generation to another. Or think of clothing; the introduction of mass production methods into the clothing industry reduced prices before the war so much that the working girl could follow fashion almost as quickly as the duchess, and silk stockings and smart rayon dresses became items in customary expenditure throughout the female population. In fact, when we speak of the rise in the standard of living of a community we mean just that – that a larger number and variety of goods have entered so generally into the consumption of all classes that they have come to be looked upon as essentials in the pattern of living usual in that population.

Radio, cinema, tobacco and beer cannot be claimed as physiological necessities, lack of which would lead to disease or

death, but they have certainly grown to be *conventional* necessities, which play so large a part in the way of living which is accepted as usual by the majority of the community that any appreciable reduction in their consumption involves a more radical alteration of habit than most people are prepared to make without suffering and protest. Hence the demand for all of them is highly inelastic.

(c) and (d). On the basis of these two common factors we introduce our own personal variations due to our income and our own tastes. To the rich man a house of a particular type or size, conforming to recognized standards in its furnishing and equipment, is considered as much a necessity as are the aspidistra in the window and the radio in the parlour by a person of more modest means. Before the war, when our right to buy was restricted only by our incomes, butter and meat were a necessity to the rich but a luxury to the poor. If their prices went up, the rich continued to buy almost as much as before, whilst the poorer people substituted margarine and cheese. And within each income range individual tastes and idiosyncrasies have to be reckoned with. The student will go without dinner rather than without books; the ordinary reader won't.

We can put the whole thing briefly by saying that the easier we find it to discover a substitute for something, the less essential do we consider it to be and, therefore, the more elastic will our demand for it be. There are some types of goods which we look upon as substitutes for one another, but the group of which they form a part seems to be essential. For example, we may not mind whether the Sunday joint is beef or mutton but would feel badly done by if there were no joint at all and we had to make do with fish or cheese. We would not rate either beef or mutton as 'necessities' but we would put 'meat' in this class. Or we might think of gas and electricity as equally pleasant and convenient ways of heating the house, so that whilst neither would be considered as a

necessity by itself, some easily manoeuvred means of heating would be. During the war thousands of people chose a 'novel by the fireside' in preference to an 'outing in the blackout' as their recreation; after the war the demand for recreation remained the same but the relative evaluation of methods of satisfying it changed, so that the post-war demand for novels is more elastic than it was during the war.

So far we have been considering prices simply from the point of view of the consumer who has so much money to spend and is thinking of how he might get the best value. But prices have an additional job to do; they are an indication to the producer how best to allocate productive resources. If more men decide that they prefer woollen shirts to cotton the price of the former goes up and of the latter comes down. Woollen shirt manufacturers need more wool, more workers – spinners, weavers and makers – more machinery, building space, more packers and distributors, more transport; in fact, more of everything that is included in the making and disposal of their goods and, because they expect to get bigger sales than before, they are prepared to compete against other industries wanting similar factors of production by offering higher prices for them. As a result more of all these are taken up in their industry and others have to cut down their use of them. Who decides which uses shall be curtailed? Nobody and everybody. Thousands of separate persons make their independent assessment of the demand there is likely to be for the things they make and settle in their own minds how far they can profitably go in bidding for the resources they require for their products. They are not, of course, completely in the dark in making their guesses; they have the experience of the past to guide them, and there are collections of facts which act as pointers to them in making their decisions. But finally they have to guess; for goods have to be produced in *anticipation* of a market (since production takes time) and the producers cannot know for certain that purchasers will,

in fact, buy the goods when they have been made. One of the most important functions of the 'business man' in a price economy is just this, of estimating consumers' demands for the thousands of different things that could be produced at varying prices so as to ensure that productive resources go into the channels where they are likely to be used to make the things the public wants, and are prepared to buy, in the proportions they want them and will pay for them.

It is very unfortunate that the chances of conversational terminology have come to apply the term 'unplanned' to the economy in which this important work is done. The term 'planned economy' has come to have a very special significance, denoting not simply that plans are made for the production and distribution of wealth, but that the machinery for making such plans is of a particular type; and 'unplanned' naturally came to be used for other kinds of organization. But, because of the associations of the word, many people have fallen into the mistake of thinking of the price economy as completely haphazard and find it difficult to understand that there may be very efficient organization, even if there is no Supreme Command to which one can point as the 'brains' of the system. The business man, who knows from experience that his livelihood depends on the skill with which he anticipates and meets the wishes of consumers, is well aware that his work involves planning and management of a very high order. As is explained more fully later (see the chapter on the Structure of Industry) the measure of the skill with which he provides the public with what it wants, where it wants it, when it wants it (as shown by the willingness to buy what he offers) is brought home to him very sharply by the amount of profit he makes on the job, and he is inclined to think somewhat ruefully of the use of the word 'unplanned' for an activity which demands so much foresight, calculation and good judgement.

In a planned economy, on the other hand, using the term

in its modern accepted sense, the decision on what shall be produced – and, therefore, the order of priority of wants to be satisfied – is made by authority. The planning authority may make its decisions in any way it thinks good. It may, for example, try to arrange that the things produced are just the ones that people would have bought if left free to spend their incomes as they liked; but this is improbable, because there would be little point in deliberately planning a scheme of production if the aim is to make it exactly as it would have been if no planning had been introduced. The more usual aim of a planned economy is to use the productive resources to make a rather different pattern from the one that would have resulted from the pull of prices, that is, to produce certain things, or to produce them in larger quantities, than individual purchasers would have been willing to pay for, and consequently, to cut down the production of other things that consumers would have bought if they had been free to do as they wished. A corollary of this control is the necessity for the authority to determine what share of the amount it has decided to produce shall be the share of any individual. This does not mean that the individual gets his share without any payment (though this may be so, as is the case, for example, with the education of children under fifteen) but that the size of the share does not depend, as it does in a price economy, on the price one is prepared to pay, nor does the amount produced depend on the total that consumers are willing to buy. Even the richest man cannot legally buy more than the rations allowed him by the regulations of the Ministry of Food and no desire on the part of consumers to have more butter will increase the total available to them unless the Minister of Food judges that more butter shall be produced or imported.

We can see now why the area of the planned economy increased so greatly during the war years. There were certain things that *had* to be produced in immense quantities and

with no avoidable waste of time, if the war was to be waged successfully – tanks, aircraft, guns, fighting forces and their equipment, ships, civil defence, etc. – and all these, like everything else, could be produced only out of the total supply of natural resources, human effort and ingenuity. They could be made only if there were a proportionate reduction in many of the kinds of production in which those resources had been used in peace-time and, hence, a similar cutting down of consumption. Unless this smaller amount available for consumption had been allocated by Government rationing, only the richest people would have been able to get a share of these goods. In the more 'normal' times before the war a rise in price of an article induced increased production and thus tended to get rid of both the high price and the scarcity that had caused it; whereas in war-time no price, however high it rose, could have made the slightest difference to the amount produced, as the Government was using the resources that would have been needed for the increase for other purposes.

In some countries, e.g. Soviet Russia, the Government exercises this control as a part of its normal routine and not simply as a war-time measure. It decides what shall be produced and in what quantities and does not allow the amount of production to be determined by the preferences of consumers, as shown by the prices they will pay for different amounts. And even in the British pre-war world we did not leave everything to the control of prices. Some things were undertaken by the State and supplied to us without consideration of how much we were willing to pay. For example, schools and hospitals, libraries and roads and parks, and many other things are provided by public authorities and we may make what use we like of them. Of course, we pay for them out of rates and taxes, but the amount of our rates and taxes does not depend on the use that we, as individuals, make of these things. We still pay the same amount in rates,

even though we have no children to go to the schools, or play in the parks, provided by the local authority. So the contrast between us and Russia is largely one of degree. On the whole, we leave the greater part of our production to be determined by price movements but have a big and growing section in which the State makes the decisions without regard to prices, whereas in Soviet Russia the emphasis is the other way round.

When we try to compare the two systems we have to remember that the issues are not purely economic; they also involve our ideas of what constitutes a 'good society', and it is in determining what we mean by 'fair' and 'reasonable' and 'just' that the main difficulties arise. The following section is an attempt to state some of the considerations that must be taken into account in deciding which of the two we prefer.

1. At first sight it seems that the price system ensures that goods are distributed most economically because they go to the people who want them most. The keener you are to have a thing, the more you are prepared to pay to get it, and as the more you pay the more likely you are to be able to buy it, scarce goods presumably will get into the hands of those who really want them. But one of the greatest bothers about this is that the same price means such different things to all of us; it depends on the size of our income and the number of people who are dependent on us. For example, a bachelor with £1,000 a year can light-heartedly spend 10/– on a whim, whereas a man with £300 a year and a wife and three children to look after must consider carefully before he can spend 5/– on something as necessary as the Sunday dinner. To the manufacturer who is trying to estimate the market for his goods, it does not matter that one man's 5/– represents more sacrifice than another's 10/–; he cannot know this. So that if we leave everything to prices the rich man's whims will be attended to before the more urgent wants of the man with a smaller income. The building industry, for

example, will find it more profitable to build week-end cottages for the rich man who has already got one or two houses to live in than homes for the worker who has nowhere to live.

2. On the other hand, one has to remember that what may seem to be strictly equal treatment (as, for example, when each person has a ration allotted to him) may be just as unfair as the effect of prices just discussed. In order to ensure that the quantity allowed to each person by a quantitative ration is available, the production of other commodities has to be curtailed. Suppose that I dislike meat and bacon, and would prefer, if left free to choose, to spend my money on Cheshire cheese and oranges. Under the rationing system I seem to be getting as fair a share of good supplies as anybody else but, in fact, I am not. I get the same weight of food but it represents less satisfaction to me than it does to those who happen to like these foods best. Or take another example. During the severe fuel crisis of 1947 people were urged to cut down their consumption of gas and electricity. There is no doubt that the most *effective* way of doing this would have been to raise the price of both of them very sharply, so that those who insisted upon having a fire during breakfast (one of the peak periods) would have realized how much it cost. Opinion was opposed to such rationing by price, because it was thought wrong that the sick or the aged, or those with young children, should be prevented from getting necessary warmth on account of the heavy cost. The result was that careless people, or those with less sensitive consciences, wasted a lot of fuel because it was cheap, but during the almost daily breakdowns in the service which were the consequence of this extravagance, the sick and aged had to leave their much more urgent wants unsatisfied, not because they could not afford the price but because the supply was turned off at the mains. This is not an argument for abandoning all rationing or for conserving fuel by raising prices; it is merely a warning against the danger of being taken in by appearances.

What seems to be absolutely equal treatment may turn out on further examination to have the same faults as the admittedly unequal method of sharing through the medium of prices.

3. But, another point. Is it really fair to say, as I have done here, that sharing through the medium of prices is 'admittedly unequal'? The inequality is not due to the fact that we get our share by buying it, but to the fact that we have unequal money incomes. If we all had the same amount of money to spend nobody would think it unfair that some of us were prepared to pay more for beef and others more for mutton. All that the price system does is to translate our unequal money incomes into unequal shares of consumable goods and what we are, in fact, complaining about is not the price system but the inequality of incomes. But, as was pointed out above, our judgements about our economic organizations are not based on purely economic grounds, and we often criticize part of our economic set-up for social rather than economic reasons. Even if we don't want complete equality we shrink from allowing differences in income to have their full effect on the life of the individual citizen. There has never been any time in the modern world when the person who had no income at all was left to starve and, in the last half-century or so, a larger and larger part of the wealth of the community has been shared out amongst its members on the basis of their common citizenship, rather than according to the size of their incomes. Education, health services, housing and many other common services fall into this category; and the more accustomed we become to getting a share of goods and services on this civic basis, the readier we grow to criticize the price system for not doing something that it was never intended to do, i.e. share everything out equally amongst us all.

4. Some people argue in favour of a planned economy that, as our productive resources are limited, we should use them first on necessities for all before we have any luxuries.

The problem here is to decide what is a luxury and what is a necessity (see the earlier section on elastic demands). During the post-war years we all know that we have to cut down our imports from U.S.A. so as to bridge the dollar gap, and it is generally agreed that only essential food and raw materials should be bought. How does tobacco rate in this? To the non- or casual smoker it seems an obvious way of cutting our commitments, but to the millions of habitual smokers the continued import of tobacco is as essential as that of basic foods. Moralists have always complained that a good deal of poverty is due to wasteful expenditure and that persons of small income have only themselves to blame for their condition, if they do not concentrate their buying on the most important elements of healthy living. Others might answer that nobody can go on working unless he has some fun out of it and that a glass of beer, or a tanner on the pools or the dogs, may be a psychological necessity. Even though life could be maintained in one's body without these pleasures, would there be any incentive to work if one could never let up for a moment? 'One man's meat is another man's poison' remains as true as ever, and we all feel rather superior when we think how our neighbours waste their time and money.

5. But many people will still insist that there is nevertheless a fairly general consensus of opinion about the importance of certain things for healthy living (as is evidenced by the general agreement on the commodities that should be rationed during the war scarcities) and that it would be best to make sure that these were produced in sufficient quantities without bothering about prices, even if there were wide differences of opinion on the relative importance of all the rest. There are some foods which the dieticians have shown to be necessary to health; there are certain standards of housing and clothing which custom has decreed as the minimum acceptable to the community. Here at once you have an enormous area in which personal assessments of necessity and

luxury are irrelevant and which could, therefore, be produced without regard to price. But here too there is the problem of the 'little more or less'. Everybody would agree that playing tennis is not a necessity as bread is. Ought we then to dig up all our tennis courts in order to grow wheat on them and bake millions more loaves? Every extra batch of loaves is less and less a necessity; every tennis court dug up leaves less and less opportunity for healthy exercise and relaxation. Which loaf ceases to be a necessity and which tennis court becomes one?

6. There is another difficulty. Suppose we agree that bread is a necessity and must be produced in 'adequate' quantities without bothering to define too carefully what we mean by 'adequate'. Digging up the tennis court is not the only way to increase the bread supplies. I might prefer to keep the tennis courts and have fewer rose gardens or cabbages or factory sites or what have you.

The great advantage of a price system is that it enables each person to make his own individual assessment of the relative 'essentialness' of things to him, to judge for himself which of his comparative luxuries he would prefer to give up, and how much of each he would prefer to give up, in order to get for himself more of the things he values more highly.

That is the difficulty of giving up the price mechanism. Faulty as it is, we have not yet discovered any other method of measuring relative values more accurately. A planning authority has, in fact, to guess and to hope that it guesses in a way that, on the whole, satisfies the ideas of the majority of the people. But every bit you take out of the price mechanism and put into State planning, the more difficult guessing becomes, because you have fewer freely indicated preferences to act as guide. Moreover a 'guess' made by the State has much wider repercussions than the decisions made by individuals. If 10,000 independent producers attempt to guess the public likes and dislikes they may guess wide of the mark,

but it is unlikely that they will all go wrong in the same direction, so that on balance the total may not be far out; if a Government official, even with more information available to him than any one of the 10,000, guesses wrong, there is no other wrong guess that can possibly compensate, and his wrong judgement may direct productive resources into a more wasteful channel than they would have gone into, if left alone.

7. Is it true that we get the best out of our money if we are left to spend as we like? Do we really make these delicate assessments so carefully that we always get the greatest possible amount of satisfaction from our incomes? We have to admit that some people are better managers than others and we all know the remarkable difference in standards of living that seem to be enjoyed by families who have the same income. (Remember there is danger in such judgements, for we may be imposing our particular views of what constitutes a good standard and assuming that everybody must accept the same valuation. Mrs Smith may be an excellent housewife who gets the most amazing value out of her husband's wages, while Mrs Jones, whose husband earns the same amount, does not find it worth while to spend so much time and energy on bargain hunting, but prefers to play with the children and laugh at her husband's jokes. Who is to say, except their respective families, which is the better manager?) But, allowing for differences of judgement about what is worth having, we know from our own experience – if we are honest enough to admit it – that we often buy from habit, and that we are both too conservative and too lazy to change, even though it would be to our advantage to do so. This is particularly true when the sacrifice we have to make (in the form of the price paid) is immediate, whereas the benefit accrues over a long period, as is the case with education or health facilities. During the war many careless parents did not use the milk and orange juice and cod liver oil provided for their

children, even though there was no charge for it; and it is certain that the health of the children, as a whole, would not have been so triumphantly maintained during those difficult years, if the State had not taken the initiative in ensuring the supplies of food of this type, and if it had not fed them direct to the children without asking their parents to take such responsibility for them. And could we be certain that every child would get an education, if the choice was left to its parents and the fees had to be paid regularly, to cover the cost of schools and equipment and teachers' salaries? We have to agree that in many ways the State can spend our money in a way that is more conducive to our welfare than we could do it ourselves. The problem here is to know where to draw the line. When the welfare of children is in question the matter is not so difficult, for we can argue that, as the child cannot make its own decisions and must trust to some adult, it is the duty of the Government to protect those who might suffer through being in the charge of an ignorant or careless or selfish person. But an adult is in a very different position. I might be convinced that Mr X is wasting his money on silly pleasures that do him no good and a great deal of harm, but what right have I, or anybody else, to impose my ideas on Mr X? There is no more insidious vice than that of interfering with one's fellow man in the guise of 'doing him good', and we have to be careful not to become dictators with the best intentions. One of the freedoms for which most of us would be prepared to die in the last ditch is the right to go to the devil in our own way, rather than to Paradise by Government direction. It is very difficult to reconcile the liberty of the individual to go on in his own crass, muddle-headed way – but a way which pleases himself and does no harm to anybody else – with the wish to see every member of the community living a healthy, efficient life.

The B.B.C. is a good illustration of this problem of reconciling the likes and dislikes of the individual with what other

people think is good for him. If we paid for each radio programme as we tuned in to it, as we do when we go to the cinema or the theatre, the ups and downs of the market would determine the proportions of symphonies and crooners offered to us. But, as it is, the B.B.C. has to make up its mind, as a matter of policy or planning, whether to give us an opera or a variety show or a talk on international affairs, or anything else that can be transmitted by radio, and, in consequence, angry letters pour daily into Broadcasting House complaining that too much time is given to talks, to light music, to classical music, to highbrow plays, to comics and to everything else. One set of people argue that they don't pay their £1 a year for nonsense and noise, but they want to be educated and elevated; another insists equally warmly that they have a right to be entertained and don't want to be 'improved'. The B.B.C. (I think sensibly, but you may take the opposite view) takes a middle course. It takes the line that grown-up people have a right to use their leisure as they like, so it provides for all kinds of taste more or less in the proportion that its Research Department shows to exist – highbrow, lowbrow and mezzo and all the grades in between. But at the same time it accepts its responsibilities as a public service of being just a little, but not too far, ahead of public tastes and interests by experimenting with plays and music and discussions that listeners would not have asked for themselves, but that they gradually learn to appreciate.

8. There are many things which are of benefit to the community as a whole but which it would be impracticable for us to pay for individually as we make use of them – for example, the defence services or roads. Moreover there would be a danger in leaving the provision of these to the stimulus of individual preferences as shown by prices because we should not have the permanent basic organization which is essential to further development in case of need.

A warning is necessary here. In this chapter I have been

dealing only with the methods of deciding how scarce productive resources shall be distributed amongst the many uses to which they might be put, i.e. how the choice shall be made of which wants and whose wants shall get priority. I have not been concerned with the *organization* of production. There are many people who argue that a publicly-constituted body can organize production more efficiently and more economically than a number of privately-owned and competing firms. This is a matter of 'techniques' and is discussed in a later chapter on the structure of industry; but the fact that an enterprise is publicly owned or controlled does not, of itself, mean that it has contracted out of the price mechanism, though to assume that this is so is a mistake that it is very easy to make. Experience in the past showed that there were many advantages to be gained by having the tramways or buses or gas supply provided by the local authority, but this did not mean that they did not conform to the price mechanism, just as if they were owned by shareholders. It all depended on how they were run. The local authority might be anxious to persuade people to live in the country away from the congested industrial part of the town and might decide to run bus services at a loss and make up the losses out of the rates. In this case it would be determining the production of transport by other criteria than the price consumers were prepared to offer, and would thus be 'planning' the allocation of productive resources in the sense defined above. But if it provided bus and tram routes only if they paid their way by the fares charged to those who used them it would still be part of the price economy. The point is that the *fact* of public ownership does not of itself constitute planning or take production out of the price mechanism; it depends on the *policy* of the publicly-owned concern.

CHAPTER 3

NATIONAL WEALTH AND PRODUCTIVITY

WHAT do we mean when we say that one country is richer than another? Or that we are better off now than we were fifty years ago? How far is it possible to make accurate and precise statements about these things? It is much easier to say what we don't mean than what we do. We certainly don't mean that a richer country is necessarily happier or 'better' or lives a nobler or more satisfactory life than the poorer one, for these are things that we cannot define or measure. When we talk about wealth – or economic welfare – we are referring only to those goods and services which are customarily exchanged for money. It is important to be clear about this point, because confusion here leads to a good deal of discussion at cross purposes. When two people disagree about whether there has been progress in the world or not you will find that one is talking about food and clothes and houses and the other is talking about happiness and virtue. Whether we consider we are better or worse than our grandfathers depends upon what we believe to constitute the 'good life': it is a matter for qualitative judgement. But the question of whether we have made economic progress in the sense of being richer than our grandfathers is rather a matter for measurement. You may believe that civilization has taken the wrong turning and that life in Merrie England was happier and more worth while than in the crowded streets of the highly specialized urban cities of to-day; but this does not invalidate the fact that we are richer now than we were then, and that standards of living have risen.

Unfortunately, when we try to make our quantitative com-

parisons a little more precise we find all sorts of difficulties. The goods and services which are customarily exchanged for money include hundreds of thousands of different items, which vary enormously in different parts of the world. How can we compare the sugar and bananas of Jamaica with the textiles and ships of England? Obviously the only way out of the difficulty is to take their common denominator, i.e. money values, the prices they fetch in the market, and this means that we can't help but exclude from the totals many things which are the same type as those bought and sold, but which ordinarily do not have money values attached to them. The biggest item in this excluded group is the extensive and valuable service done by women as mothers, wives, nurses and housekeepers for their own families. If all housewives went on strike and refused to do their work unless they received regular rates of remuneration for it, their pay would be added to the total money value produced by the community. It would look as if we had suddenly become richer, but in fact we should be producing just the same amount as before. Similarly, we do not take account of the jobs that people do for themselves or their households, but for which payment would be made if they were done by strangers; the work done by father in growing backyard vegetables or mending the children's shoes, for example, because it is not possible to estimate the amount of work of this type done by millions of separate households. In ordinary times this does not amount to very much in an industrialized community such as this, though there is no doubt that in times of stress it may add considerably to national wealth. During the war, for instance, there was an appreciable contribution to total production made in this way.

There is a similar difficulty in estimating the production of such countries as India and China where the majority of the population live in economically self-sufficing households, whose main products are for their own use and not for the

market, but as they mostly work on a traditional and uniform pattern it is possible to get a fairly good idea of the value of the work they do.

If we base our comparisons solely on money values we have to remember to take into account the fact that these values do not remain constant. They differ from one country to another, and from one period to another in the same country. Most people in England now receive considerably bigger money incomes than they did pre-war, but they cannot always buy more than they did before. In U.S.A. money incomes as a whole – both pre-war and now – are higher than in this country, but so are the prices of most of the things on which incomes are spent (see Chapter 7) so that before we can compare the wealth of two countries or two periods we must take account of changes in the value of money.

Everybody would agree that America is richer than China, but this does not mean that every person in China is poorer than every person in America. In all countries there are inequalities of wealth, and there are thousands of people in China who are much richer than hundreds of thousands in America. Nor do we mean that the total produced in one country is bigger than the total produced in another. As countries are all of different sizes this would not have much meaning. Denmark is richer than China, but you would not expect to find that its 4½ millions of population could produce more than China's 400 million. So that the only fair basis of comparison is to measure the amount of wealth produced by each person, i.e. to divide the total produced in the country by the number of people of working age who have contributed to it. Many will actually receive larger incomes than this and many smaller, but this gives an idea of the average output of that community, and is thus a measure of its economic productivity.

If you think of all these difficulties you will realize that it

is not possible to get a completely accurate comparison of the economic position of different countries; but statisticians have worked out methods which act as a very fair indication of their relative wealth. Just before the war Mr Colin Clark made an estimate of real income in most countries of the world by expressing them all in terms of the goods and services that these incomes could have bought in U.S.A. over a certain period of time. This calculation showed that more than half the world, including all India and China, had an average weekly income of less than 4 dollars (16/-). The richest 10% of the world's population, living in U.S.A, Australia, New Zealand, Argentine, Great Britain and Switzerland, had an average weekly income of 20 dollars (£4) or more per breadwinner, and the next richest 9%, living in the principal industrial countries of Europe, had an average varying between 10 and 20 dollars (£2–£4).

Even then, before the wholesale destruction and disorganization caused by the war, the world was an extremely poor place as a whole and its wealth was very unevenly distributed. Nearly half of the total economic output of the world was produced in four countries (U.S.A., Great Britain, Germany and France) which contained between them only 13% of the world's population.

How are these vast differences in economic productivity to be accounted for? There is no short answer to this question, for there are so many factors which must be taken into account. We can say definitely that there are some things which play a part, but we do not know how much relative emphasis we should put on each of them.

1. Natural resources are not, of course, distributed evenly all over the world's surface. Some places are well endowed with easily worked minerals, some have particularly fertile soil or a climate suitable to certain crops, or perhaps a coast line that provides good harbours and facilitates sea communications, or the interior may offer opportunities for

rapid inland transport of men and goods. Italy's lovely golden sunlight and Switzerland's scenery give those countries obvious advantages in developing a tourist trade, just as the fact that Britain's coal and iron deposits were placed so conveniently for cheap transport was a major factor in enabling her to become the first industrial society.

All the same, the incidence of natural resources alone is not enough to explain such big differences in economic productivity, for nature has not been guilty of such favouritism as these wide divergences might suggest, and it is in the skill, persistence and ingenuity with which the resources are exploited that the chief differences are to be found. There is no human society, however primitive, which has not discovered the use of tools, even if these consist of nothing more than sharpened pieces of stone and wood with which to kill animals for food, or to dig the soil for crops. But communities differ enormously in the extent to which they have evolved tools of more complex design, and there is little in common between the digging stick of the South Sea islander and the motor tractor of the American farmer. Probably the size and suitability of the technical equipment (or capital) is the one most important determinant of differences in productivity. In a calculation made recently it was estimated that the output per head in manufacturing industries in this country was only half that in the United States, largely because American industry is so much more highly mechanized than British – the horse power used per worker is twice as great in U.S.A. as in British factories.

2. As tools themselves have to be produced the resources they embody form part of the total which sets the limit to the satisfaction of all wants of whatever kind they may be; so that the wealthier and more productive a society is, the greater are its possibilities of adding still further to the ingenuity and number of its mechanical aids, for the wider is the margin between productivity and the wants that people

wish to satisfy now. The community which lives close to the subsistence level, i.e. which produces only enough to keep itself alive, cannot afford to devote any of its resources to making tools or training capacities for the future, even if its members realized that better equipment would give them a higher standard of living later on. But as soon as there is even a slight improvement, by a lucky chance for instance, we can choose whether we shall satisfy present wants more fully, or turn the increased resources to constructive purposes, by making them into technical equipment which will add to our productive efficiency in the future. The remarkable improvements in machinery which raised standards of living in so revolutionary a way during the nineteenth century could not have been possible had it not been for the fact that it was customary for owners to put back into their businesses a considerable proportion of their profits, instead of using them to live as expensively as their incomes would have permitted. In this case the choice of the proportion of present resources to be devoted to technical equipment was left to individuals, who decided how much they thought could be profitably used in that way. In the U.S.S.R., which similarly tried to develop its resources to a higher level of productivity after the Russian Revolution, the choice was made by the State. The First Five Year Plan was mainly concerned to reduce consumption in order to leave a wider margin of resources for the formation of capital, and the higher standard of productivity of the late '30s was the result.

3. The degree to which people are willing to tighten their belts now in the hope of letting out the notches later on depends, of course, primarily on the mental outlook of the community – though, perhaps, in a planned economy it is the mental outlook of those in control, rather than that of the whole community, which matters most. But whether the choice is left to the individual or imposed from above, it is determined largely by the current scale of values. There are

some people whose temperament leads them to live more in the present than in the future; taking pleasure in good things when they can get them and doing without them when they can't. There are others who have developed more of the telescopic faculty. A society which measures social success by the amount of wealth people possess is more likely to be ready to make sacrifices for the sake of the future than one in which other qualities take precedence. There are some communities who value old ways and who are content so long as they can continue along traditional paths; there are others for whom past achievements merely provide the standard by which to measure the greater successes of the future. The whole pattern of behaviour – the complex of social values, of what is considered the right way to act, of what constitutes success or earns the applause of one's fellow men – is a determinant of the amount of capital that is produced to equip the worker in the effort to produce the goods needed to satisfy wants.

4. But the amount of capital depends also on circumstances. There is no doubt that one of the most important reasons for the economic backwardness of the East is to be found in the enormous supplies of labour available. Men usually do not think unless they are compelled to do so, and the existence of an immense reservoir of workers makes it unnecessary to think out ways of lessening human effort by devising tools. When American industries were first establishing themselves there were available large tracts of fertile land, to be had for the asking, and manufacturing firms had to compete for workers against the attractions of independent farming. Only high wages could offer sufficient incentive, and from the first, therefore, American industrialists were bound to turn their inventive genius into the provision of first-rate technical equipment, so as to economize their use of expensive labour. How important is this factor can be seen also by the extraordinarily rapid strides made by

technological experiment in this country during two wars. There is no truer proverb than Necessity is the Mother of Invention.

5. Quantity of capital is not the whole of the story; its suitability for its purpose and the skill shown in its use are equally important. For these, ceaseless experiment is necessary, and here again the attitude of mind is one of the chief factors in determining the level of wealth. It is probable that America's predominant position is due as much as anything else to the fact that her industrialists are inclined to assume that last year's methods are out of date and that there *must* be something better, if only they can find it, whereas, on the whole, England is more prone to think that old methods are good methods unless there are definite proofs to the contrary. Rapidity of change can, of course, be carried too far, and novelty may become an expensive fetish. It is always a question of whether the outlay of resources and labour involved in introducing new methods and the new tools they require is justified by its resultant increase in productivity. The new method may be better technically, and yet not so much better in its effects on output as to justify scrapping the old machinery and skills, and using labour and material to make the new. Both extremes, whether of conservation or of novelty-worshipping, are wasteful; but a country which is eager to try out new methods is much more likely to increase its average productivity even if it sometimes scraps techniques and their equipment too easily.

So far I have been discussing differences in the average productivity of different communities, but this is not the only factor which accounts for differences in the standards of living. There is no country in which the total produced is divided into absolutely equal portions amongst the population, and the individual is concerned as much, if not more, with the share he gets as with the amount produced as a whole. During the present century the standard of living in

this country has been very much influenced by changes in the distribution of the national income as well as by increases in the total. This matter will be discussed more fully in the chapter on the ways in which people get their incomes; here it is enough to point out that it is much more difficult to measure changes in the standards of living of individuals than it is to measure changes in average productivity, because the things on which we spend our incomes change in content and relative importance from time to time. There are now very few wage-earning families who do not possess a radio or go occasionally to the cinema; but neither of these pleasures was enjoyed by their counterpart of fifty years ago, not because of poverty but because they did not exist.

It is generally accepted that the greater variety of consumption which the development of scientific knowledge has made possible represents a rise in the general standard of living, but it would not be possible to represent it by a numerical comparison of the living conditions of two persons living at different periods. We have to admit that we cannot do more than get an indication of changes by restricting our comparisons to a much narrower scope. What we can do is to calculate the proportion of the community who are living in poverty at one time, and compare it with the proportion in that condition at another, because it is reasonable to assume that a decrease in such a proportion will indicate a general rise in the standard of the masses of the population as a whole. However, 'poverty' itself is a relative term and requires further definition before it can be used as a measuring rod. For this purpose it is taken as being the condition in which the individual's income is insufficient to buy him the bare necessities of life, and if we calculate, on the one hand, the amount needed for this purpose at ruling prices and, on the other, the actual incomes earned by the people in the community (taking into account, of course, the number of persons they must maintain out of their earnings) we can

get a fairly good idea of the proportion of the population living in poverty.

Unfortunately even this is not as accurate a measure as it may appear at first sight. The term 'necessaries of life' is a relative one, and what we, in this country, would include in the bare minimum would, undoubtedly, seem like unheard-of luxury to an Indian peasant. Our interpretation of 'necessity' is largely conventional, so that a poverty line is drawn in some relation to the standards of consumption of the period and of the country. But if we are concerned primarily with measuring changes of standard in one country and the periods of time are not too far removed, so that customs and manners have not altered too radically, the poverty line gives us a pretty good indication of changes in standard as they affect individuals rather than averages.

A number of well-known investigations have been made on these lines, but in only three instances do we possess information with regard to conditions in the same district at two different times; one of London (done by Charles Booth in 1889–1903 and again by the New Survey of Life and Labour in London in 1928–30), the second by Seebohm Rowntree into the conditions in York in 1899 and again in 1936, and the third, much narrower in scope, into the economic conditions of working class households in five towns (Northampton, Warrington, Reading, Stanley and Bolton) in 1913 and again in 1924. In 1890 the percentage of persons in London working class families containing children who were living in poverty was 37·3; in 1929 it was 10·7, and even this figure was too high for the actual conditions. In 1929 the Great Depression was beginning and the amount of unemployment was exceptional; if the enquiry had been made when this serious unemployment had not been in existence but all other conditions had remained the same the proportion would have been only 5·1 %. In York there were 15·6 % of the working class population living in the worst poverty in

1899 and only 6·8% in 1936. In the five towns the 1913 percentage was 11%, but by 1924 it was 6·5% in the actual week of the enquiry and would have been only 3·6% had unemployment at the time been normal.

These remarkable changes, due both to increases in average productivity and changes in distribution, give one a good idea of the rise in the standard of living during the present century.

CHAPTER 4

THE STRUCTURE OF INDUSTRY

You probably buy your weekly rations or daily vegetables at the little shop at the corner, which is kept by a man who does all the work himself with the help of his wife and a boy to run errands; but if you wanted to get a new set of furniture for the dining-room you would be more likely to go to a big store in the centre of the town where you would be served by a salesman in the employ of the firm who owned the shop. Or perhaps you are a member of a Consumers' Co-operative Society and get most of your goods from one of the shops that you, as a member of the Society, own yourself. In your own job the probability is that you work with hundreds or even thousands of others who are all employed by a company composed of numbers of shareholders. Your wife can choose the shop at which she will register for the family rations, but she cannot choose from which company she will get the water to drink with them, for it will be provided by either the municipality or a firm which has the sole right to serve your locality. Your radio programme, on the other hand, comes to you from a public corporation which serves, not your locality, but the whole country.

Here we have some examples of the large number of different kinds of productive enterprises which make up our economic world. They differ from one another in size, in structure, in their ownership and control and in the degree to which they are able to control their market.

LARGE AND SMALL SCALE

Let us take size first. There is a popular idea that large-scale production is always cheaper than small and that it is only a

matter of time before all the small firms are swallowed up. This is a complete fallacy. What are the advantages of the big firm?

1. It can divide up the processes of manufacture so that each can be done by labour and equipment specially adapted to the purpose. This applies to managerial and technical functions as well as the more routine processes. It is not worth while putting in highly specialized machines or a highly specialized official unless the output is large enough to keep it or him in pretty constant use.

2. Packing and transport can be cheapened by standardization.

3. By buying its raw materials in bulk it can get better terms.

4. It can maintain its own research department and can afford to experiment with new methods.

5. Overhead charges, such as factory buildings, power, managerial organization, etc., do not increase proportionately with output, so that these costs per unit are less if the firm is big.

But it is foolish to have a plant which can produce an enormous number of an article, however low the cost, unless there is an equally large market for it. You might be able to manufacture boot buttons very cheaply in a gigantic factory, but as boot buttons are out of fashion there would not be sufficient demand for the product to make it worth while. Now markets vary enormously in size and for all sorts of reasons. Sometimes transport difficulties are the main problem; with bulky or heavy or perishable articles the cost of transport to reach outlying regions might outweigh the advantages of concentrated production. Sometimes it is a question of political factors; the manufacturers of the United States have been able to grow very big because of the enormous area of free trade, which offered them a huge market, whereas European countries have had to be sure that the economies of their large scale would be enough to compensate for

the tariffs they would have to surmount, in selling to foreign markets. In other cases it is a matter of convenience; the housewife prefers to buy her everyday groceries near by, instead of taking a bus ride into the centre of the town – so you have a large number of fairly small retail shops instead of one big central store. Sometimes it is a matter of individual taste; we don't mind having overalls of a standard pattern but we object to wearing the exact replica of a neighbour's dress – so overalls are more suitably produced by mass production methods than are evening dresses. In some things fashions change very rapidly, and it would be wasteful to establish a large plant designed to produce cheaply something for which there is a big, but ephemeral, demand, unless the equipment could be quickly adapted to make the next thing wanted by a fickle market. Sometimes there is a comparatively small section of the public which wants the article; a learned treatise is published in a much smaller edition than a popular novel.

There is another consideration which may limit the size of a business. Every increase in the scale of production puts a bit more strain on the capacity of the men who are in control at the top. Not only does direction become more difficult, but any mistake in judgement is more expensive and more disastrous. Where the technical problems have been pretty well overcome and methods are fairly standardized this may not be a serious difficulty; but where techniques are continually changing or where the conditions in which production is carried on do not remain stable for any length of time, a big firm is too unwieldy to be efficient. In the textile industry, for example, there is a great difference between the size of spinning firms and those engaged in weaving. Spinners can produce standard thicknesses of yarn to be used in an immense variety of materials, so they can take advantage of all the economies of mass methods, but weavers must take account of the vagaries of fashion, and the firms must be

small enough to move rapidly from one type of product to another. Perhaps the best example is to be found in agriculture. A farmer in this country cannot plan all the details of the work on his farm for three months ahead and arrange the jobs to be done by each worker. The climate changes so bewilderingly and so abruptly that he must be prepared to scrap his plans and issue new instructions literally from hour to hour; he could not do this for a thousand workers, and so a farm must be kept sufficiently small for the person in charge to be able to envisage it as a whole, and yet be fully and continuously in touch with what is being done in each section. This problem can be seen in an extreme form in agriculture, but it is always present; for in no industry do conditions remain completely stable, and this means that businesses often decide not to expand to the size which would be economical on purely technological grounds, for fear of becoming too unwieldy and inflexible for good management.

During the present century the size of businesses has, on the whole, increased greatly, mainly for two reasons. (1) The rapid development in cheap and quick communications has enabled firms to reach wider markets. Goods can be distributed easily from one centre; purchasers can move about more freely. The woman in the country is no longer dependent on the village dressmaker but enjoys the shopping outing to the big stores in the nearby town; and the larger the area served, the greater chance of finding enough people of like tastes to justify producing in bulk the things they want. (2) The rise in the standard of living has extended the range of articles that have come to be considered as conventional necessities, or the 'standard equipment' of life. This is especially obvious in such things as women's clothes, but it is equally true, if less obvious, in our demand for house equipment, and for such leisure-time amenities as bicycles, games, camping kit, etc. One interesting example of this is

seen in the Butlin Holiday Camps, which have introduced the large-scale firm into the provision of hotel accommodation as the result of the expanded demand for holidays resulting from higher wages and 'holidays with pay'.

The rise in the standard of living has a dual effect on the size of businesses. On the one hand it increases the number of articles of common consumption for which there is, consequently, a big settled market; on the other, it widens the margin of our income in which we can allow our individual preferences more sway. The smaller the income on which we live the greater proportion of it that must be spent on sheer necessities; but as it increases there is a bigger and bigger area in which we can exercise real choice and, unless we all grow strictly to pattern, that means that more of our choices will differ from our neighbours' and therefore be less amenable to production on a large scale.

The problem discussed in this section is very pertinent to our plans for the future. Most of us have in our pockets a blueprint of the world we hope for, and it is very easy to assume that all kinds of enterprises can be run efficiently on more or less the same pattern. But this is not true, and we must be careful not to plan a world which ignores necessary variation in industrial structure. It is worth while to discuss, for example, what bearing these factors which determine efficient scale in manufacture and distribution might have on the choice of industries to be nationalized; or how far the choice before us might be between cheap standardized consumption on the one hand, and, on the other, a greater opportunity for varied individual choice, though at a higher cost.

WHO OWNS? WHO CONTROLS?

In the little shop at which I supposed you to buy your rations there is somebody whom you recognize as the owner. In the big department store, or in the works where you earn

your living, there is no person to whom you can point in this way, because the business is owned by a large group of people – the shareholders of the company. Here are illustrated the two chief types of modern production – the private business and the joint stock company. A private business is owned and controlled by one individual (or a few partners) who takes the risks connected with it. He has probably got a little capital of his own that he has put into the stock and has possibly borrowed some more from relatives and friends. He has to pay interest on all the capital he borrows, for, of course, we must pay for the use of capital just as we pay for the hire of a car, and that interest is part of the costs of production which he must meet out of the prices he receives for the goods he sells. In starting out as a business man on his own in this way he is certainly taking a risk. He has to pay his rent, as well as the interest on borrowed capital, meet the wholesalers' bills for the goods supplied, pay his assistants and delivery men their weekly wages, and all these charges must come out of the receipts for his goods. There is no guarantee that he himself will get anything at all for all the work he is doing; what he gets is the difference between his costs and his receipts, and it depends on how good a business man he is whether he makes any income at all. If he has made a good guess at what his customers want, always has the kinds and quantities of the things they like, knows where to buy, sees that his shop is well organized so that people are served quickly and courteously, can prevent bad debts from piling up and so on, he will make a good profit – not necessarily by being able to charge higher prices (if he does that too obviously his customers will probably transfer their custom to the shop in the next street) but by a quicker and larger turnover. If, on the other hand, he is a poor business man or perhaps has bad luck, then the margin between costs and receipts will be squeezed narrower and narrower, until it becomes so small that he will begin to question whether

the amount he gets is enough to pay him for all the work he does in running the shop and all the anxiety it involves. If he decides it does not, he will give up the shop and perhaps take a job somewhere else as a salesman, where he has neither the responsibility nor the risk.

This simple description shows the chief characteristics of all firms which are run as private businesses (though they are certainly not all on this small scale). The owners are not guaranteed any payment for the work they do and they know that anything they make depends on their skill in finding out what customers want, organizing its supply and persuading people to buy it.

In the joint stock company the business belongs to all the shareholders who between them have contributed the capital, and there may be many thousands of these scattered all over the country or, indeed, in other countries too. Some of them may have only a few hundred shares in the business and others may have several thousands. It is obvious that such a scattered body of persons cannot do the day to day work of organization involved in running a business. Most of them know very little of the technical and commercial problems that have to be solved and, even if they do, they are too far from the scene of operations to take any part in it; moreover, they have their own jobs to do at which they earn their living. So the sort of work that in a private business is done by the proprietor has to be done, in a joint stock company, by salaried officials working under the direction of a committee of management called the Board of Directors, who receive fees for their trouble. In theory, the Board of Directors is under the control of the whole body of shareholders, who can call them to account if they disagree with the way in which they run the business; but as the shareholders are not an organized body of people it is understandable that this ultimate control is not very important in practice and shareholders rarely question the work of the Board of

Directors. This is particularly true if the company is making good profits; if there are losses the questioning may be more serious, for, as the shareholders have no guarantee of receiving any return on the capital they have contributed to the business, the dividends they get depend on the amount of the profit the company has made. If it has been a good year shareholders may get 15, 20 or 30 per cent on their shares; but if it has been a bad year they may get as little as 1 or 2 per cent or even nothing.

There are some people who do not like to take as much risk as this, and, for them, two other types of share have been devised. (1) The preference shareholders are a privileged group. In common with the ordinary shareholders they have no guarantee that they will receive any dividends, but they have the right to have the first dip into the profits, if there are any. But as they do not take as much risk as the ordinary shareholders they do not get as much chance of the big profits when they occur, and the amount of dividend they receive is limited, while that on the ordinary shares is not. (2) The debenture shareholder takes even less risk than this; he lends his money to the company for an agreed interest, neither more nor less, and the payment of this interest is as much a charge on the firm as the rent of its building or the wages of its employees. In fact, the use of the term shareholder here leads to confusion, for the debenture owners are not part owners of the concern, as are the preference and ordinary shareholders, but simply *creditors*. The difference in their position is shown by the fact that they do not have even the nominal control exercised by the others, as they have no voting rights at the meetings of the company.

In both the private business and the joint stock company, then, it is the *owners* of the firm who take the risk, but in the private business the owner is the man who actually controls the day to day work and probably does a great deal of it himself, while he may have put up only a small proportion of

the capital out of his own pocket; whereas in the joint stock company the owners are those who have provided the capital, but they take little or no share in the running of the business.

The outstanding advantage of the joint stock company is that it allows the mobilization for productive purposes of a vast amount of capital that would otherwise have little chance of being used. Most of us do our best to put aside a part of our income for a rainy day or for use in the future. Generally we have not enough to set up in business for ourselves, and even if we have, we may not want to give up our own way of earning a living for something for which we have neither skill nor liking. By buying shares in a company we become part owners without the necessity of giving up our own job. There is the added attraction that, as shares can be bought in small amounts, we can divide our savings amongst a number of companies, and this reduces the overall risk. If it is a wet summer the firm making mackintoshes will find good markets, if there is a heat wave there will be a specially big demand for bathing suits. If we have shares in both we need not feel unduly anxious about the weather, for what we lose on the swings we shall gain on the roundabouts.

The fact that shares are negotiable – that they can be bought and sold on the Stock Exchange – gives joint stock companies a further advantage in attracting capital. If we save money for an emergency we want to know that we can put our hands on it easily when the need arises and, by having our capital in shares, we have this assurance. Of course, we can't always be sure of getting back exactly the same amount of money as we paid for the shares. People will not be eager to buy them unless the company is doing fairly well or is expected to do well in the near future. If you want to sell your shares just when the company has been through a bad patch you will have to accept a lower price for them than you paid; but on the other hand, if the firm has been doing well and

paying high dividends, and is expected to continue doing so, purchasers will be so anxious to buy your shares that you may get very much more than they cost you.

This method of collecting capital from many people, each of whom may have only a comparatively small amount, gives a joint stock company the use of a much larger total than can easily be collected by a private business which must depend on what the proprietor possesses or can borrow. And this means that wherever large-scale production is particularly advantageous there is a likelihood that the business will be organized on the joint stock pattern.

But don't assume that all small firms are private businesses and all large ones joint stock companies. Many firms can start small and, as they grow larger by successful trading, they get the extra capital they need by ploughing back their own profits without borrowing from anybody or asking the public to buy shares. In this way many private businesses grow bigger than a moderate sized joint stock company. But if an enterprise is such that it *cannot* begin on a small scale and gradually expand, but is bound to *start* big, it must be organized on a joint stock basis. For example, a railway needs a great deal of equipment before it can function at all – a furniture factory doesn't.

Both joint stock companies and private businesses are examples of private enterprise, and between them they account for more than three-quarters of all production; but there are certain other kinds of structure which must be mentioned. In any form of private enterprise the decision to produce is taken by certain individuals who accept the responsibility for their decision. In public enterprise, on the contrary, the decision is taken by some public authority and the responsibility for failure is borne by a public body. But just as private enterprise takes different forms, so too there are varied forms of public enterprise.

The Post Office is a department of Government, but it is

also a gigantic productive organization involving millions of capital and employing thousands of workers. Usually the prices charged for its services are enough to cover its total costs – and even leave a little over – but it is not run primarily as a profit-making concern, and any losses which might occur are met by the taxpayer. Its policy is determined by the Government in so far as the Postmaster-General must be prepared to justify anything it does to Parliament.

This was the first large experiment in State business, and it was copied on a smaller scale by certain kinds of municipal activity in the provision of such public utilities as gas and water and transport. Many of these public utilities have now been nationalized, so that the most usual form of public enterprise nowadays is to be found in the Public Corporation. This is a body composed of experts, appointed by the Government, whose general policy is under Government control, but which possesses independence in detailed administration. Examples of this kind of structure are to be found in the B.B.C., the National Coal Board, the British Electricity Authority, the Airways Corporations, the British Transport Commission and some others. In one way these corporations are like joint stock companies, since the work has to be done by a group of people acting as a Board and receiving payment for their services. But they differ from a joint stock company in two important respects. (1) They are bound to pay an agreed rate of interest on all their capital. All their borrowed capital, in fact, is in the same position as the debenture shares of the joint stock company, so that no owner of the capital has any controlling voice in the affairs of the business. (2) They can be called to account for their policy by Parliament, though it must be admitted that the means by which this can be done is still very obscure, and, indeed, is likely to be one of the most hotly debated issues of the near future.

Between private and public enterprise there is a type of

productive structure which does not fit into either of these two categories, the Consumers' Co-operative Societies. Their enormous capital, for they are among the largest businesses in the country, is provided by their members (nearly ten millions of them) who are also, in general, the purchasers of their products. Unlike the owners of a joint stock company, the amount of control exercised does not depend on the amount of capital one has contributed. Each member has one vote, and one only, and the profits made by the Society are divided, not amongst the capital owners, but amongst the purchasers of the goods in proportion to the amount of the purchases made. In so far, then, as the Society is controlled by its owners and not by Government authority, it is a form of private enterprise; this is also true of its relationship to its workpeople, for, although it has the reputation of being a good employer, its position in regard to those employed by it is essentially the same as that of any joint stock company. But in so far as it is run primarily in the interests of those who consume its products, and not as a profit-making concern (since all the profits that do, in fact, accrue are distributed amongst the purchasers), it is more in the nature of public enterprise.

COMPETITION AND MONOPOLY

When you decided where to register for rations you probably had a choice between several shops selling more or less the same type of goods and you picked on the one you thought would suit you best; perhaps because the shop was close at hand, or the assistants were pleasant, or the goods looked particularly fresh and varied, or the shopkeeper was prepared to deliver, or simply because you had always dealt there and saw no reason to change. So although all these shops are in competition with one another it is easy to see that their rivalry includes so many aspects of trading that comparison is by no means simple. I would rather pay a bit

more for a thing – particularly if I don't buy it very frequently – if I can get it at a shop I pass on my way to work than waste time and temper in snooping about the side streets on the chance of getting it a penny cheaper. But if I needed a lot of the article I should probably find it worth while to change my route so as to go by the cheaper shop. Competition, then, does not work slickly and automatically; in fact, perfect competition can hardly be said to exist at all, because we can't bother to spend so much of our time finding out all the possibilities before making our choice. This is especially true, of course, of the individual consumer, because we buy such hundreds of different articles that we rarely take a great deal of trouble over any of them, and we are too ignorant of the details of most things to be able to make really sound comparisons. (How many of us can choose a car or a radio with knowledge?) But it is also true of the manufacturer and trader. Theoretically one might expect them to explore every possibility before deciding, since a difference of a penny will have a real influence on profits, when goods are bought in thousands; but, in practice, firms continue to trade with those with whom they have long-standing connexions without troubling very much to discover alternatives. It is sound business to establish mutual relations of confidence and respect in this way; you are likely to get an early delivery of something scarce or better credit terms than the casual purchaser. So that even when you have businesses ostensibly in competition with one another it is, as the economists say, only 'imperfect competition', which means that all sorts of things, such as habit and ignorance and social relationships, prevent it from working very rapidly or with the sharpness of a razor blade.

Even this imperfect competition is not found over the whole of the productive field. If you want to cook the dinner in a gas cooker you have no choice about the company from which you order the gas; you *must* get it from the only source

of gas supply in your area. The same thing applies to the water you use or the electricity or the bus on which you travel to work. All these things which we call 'public utilities' are monopolies, i.e. only one company supplies each one of them in one locality, and this was true even before the recent nationalization of transport, electricity and gas. Why is this?

If you examine these industries you will find that they have certain characteristics in common. They all need an exceptionally large amount of fixed capital which does not vary much for different amounts of output. (For example, you would need to run your water main or gas pipes along a street whether you wanted to supply every house or only occasional ones.) Again, they all have a local market the size of which is not connected primarily with their efficiency, but depends on other factors over which the concern has no influence. (It is not likely that people would remove to a town simply because they could get their gas cheaper.) So if there were more than one company supplying the locality each would have to incur the same heavy overhead charges but would have only a share of the market and, consequently, each unit supplied would have to bear a proportionately heavier part of the overheads. Only by providing for the whole demand from one source can you effectively economize the capital equipment and provide the service at lowest cost. There are, of course, many other reasons in favour of such unified control. Imagine the general upset and confusion if half a dozen rival gas companies were continually taking up the streets to lay their gas pipes, or the traffic congestion if several bus companies plied over the same routes. And would the rural districts get any transport at all? A company which has the monopoly of the busy streets can afford to accept the condition that it must also serve the less populated and therefore less paying areas.

All such services as gas, water, electricity, local transport, etc., which have had to become monopolies for economical

running, play such a large part in the life of the community that they have been either publicly owned or publicly controlled for some time. It must not be thought, however, that these form a clearly defined group about which there can be no dispute. In fact, it has taken a long time for what is sometimes called 'gas and water socialism' to develop and there is always a lot of difference of opinion as to where the boundaries should be drawn. One of the strongest arguments used by those who wished to bring about coal nationalization was that the industry had reached a stage in its development when the economical use of its capital equipment necessitated unified control of the whole, and again with transport, many insisted that it could not be run efficiently, and at low cost, unless all forms of long distance transport – motors, railway and canals – were combined under one control, so that each type of traffic could supplement the other instead of competing with it. But in both cases there were many who disagreed and who strongly opposed the Acts which nationalized these industries.

These illustrations are given merely to draw attention to the fact that the principles discussed in this section must be continuously applied to changing circumstances. One cannot say with finality 'These are industries which *must* be run as monopolies if they are to be efficient, and these others are not.'

But not all monopolies are public utilities. The elimination of competition can be brought about for other reasons, and by other means, and the results are much less obvious to the consumer, because they are brought about by groups of people acting voluntarily and in their own interests. The forms taken by such agreement are so numerous that it is not possible to list them in this short account. They vary from the unwritten understanding amongst a small local group of dealers not to lower their prices without consultation with one another to a highly integrated amalgamation of busi-

nesses covering a whole area of productive activity. Broadly speaking, they fall into two categories:

1. Associations of firms dealing in the same commodity, who jointly settle the amount to be put on the market and the minimum prices at which it will be sold, but who for all other purposes (i.e. the processes of manufacture and marketing) remain separate and competing firms.

2. Amalgamations of firms which give up completely their individual identity and become welded together under a joint control which governs the whole of their functioning.

It would be difficult nowadays to find any part of the productive sphere that did not show some amount of agreement among firms of one or other of these types, but the extent and authority of such agreements vary enormously. The size of the industrial unit has a good deal of influence – it is more difficult to get a working agreement amongst a thousand small firms scattered all over the country than between half a dozen big businesses which share an industry between them. The amount of foreign competition is another important factor, for the exclusion of foreign goods allows greater power of control to the firms inside the country dealing in that particular commodity. The two world wars have done much to increase monopoly development, not only by cutting down foreign competition but because most industries have been compelled to organize themselves, so as to have a representative body capable of negotiating with the Government on such questions as the rationing of raw materials. Although it was not the intention of such government action to encourage monopoly organization, this has, in fact, been the result, for firms which were brought together for certain government purposes have taken the opportunity of retaining their joint machinery for their own interests.

To most of us the term 'monopoly' has somewhat sinister associations and we are inclined to lump all types together as anti-social attempts to exploit the consumer. Yet the fact

that few of us would denounce trade unions as bodies that ought not to be allowed to exist (though we might not necessarily be in sympathy with all their policy and action) should make us realize that there may be occasions upon which agreements among traders may have much to commend them. For a trade union is, of course, no different in principle from any other price association in which the members agree to maintain a minimum selling price for their products. Too much instability in the price of an article may have undesirable social repercussions and it may be worth while – even from the point of the consumer and much more so from that of the producer – to have slightly higher prices than there would be with competition, in order to have less fluctuation. Such agreements as those made by price associations attempt to introduce a certain degree of stability into the market.

It is when we come to consider amalgamations, however, that we find the most important opportunities for greater economy in production than is possible to competing firms. One of the most valuable of these, if not the most valuable, is the possibility provided by unified control for the elimination of redundant designs. During the war we became accustomed to buying 'utility' goods, the prices of which were considerably lower than those of others. The reason for the lower price was not simply that there was a lower purchase tax on them – that was simply the bait to get us to buy them – but that in order to qualify they had to be made in a limited range of designs. By reducing the number of designs each pattern could be repeated an enormous number of times so that the machine had long runs without resetting, smaller quantities of spare parts were needed, and component processes could be carried out in bulk.

When firms are in competition with one another, the offer of a great variety of designs, differing both from one another and from those of rival firms, is the principal way in which

they catch the attention of the purchaser; it is only when they have amalgamated that they can afford to cut out unnecessary variations and get the same advantages of bulk manufacture that were obtained by utility restrictions. (It is perhaps worth while here to emphasize that there is no intention of suggesting that all variations in design are wasteful and unnecessary. On the contrary. The more highly developed we are as individuals, the more do we dislike a dreary uniformity in the things in which we express our different personal tastes. But that does not mean that we have to differ from everybody else in every point of behaviour. I should dislike to have to wear the same clothes as my neighbour, but to cook in the same shape of saucepan does not make me feel a regimented robot; so that pans provide a more likely opportunity for the elimination of redundant designs than clothes.)

There are many other ways in which joint control can cheapen production: e.g. in the pooling of technical knowledge and in the abolition of cross-transport charges, so that goods can be sent to their destination from the nearest plant. Again there is a tendency for the plant of competing firms to outrun the demand for the product. It is not only that each firm hopes to increase its own sales and expands its scale in the desire to cheapen unit costs but that it is afraid to lose its customers if it is unable to promise quick delivery. Particularly in industries where the demand is highly fluctuating, this results in the establishment of plant by each competitor which is far in excess of its average needs. When the firms unite, production can be concentrated on the most efficient plants and the remainder closed down, with a great saving in both unit and overall costs.

In fact, so great are the improvements that can be effected only if all firms are working under agreement that the Government was continually urging a greater degree of such unified control on all the depressed industries during the difficult years between the two wars; and, in some instances, it

used compulsion to bring this about. Under the Coal Mines Act, 1930, for example, a council representative of the coal owners of all districts was set up to fix the total output of the industry and the minimum prices to be charged for each class of coal, and fines were exacted for any breach of these regulations. At the same time the Act established a Reorganization Commission with the task of encouraging and, if necessary, compelling amalgamations between colliery undertakings. Similarly the Agricultural Marketing Acts, 1931 and 1933, provided that a majority of producers of an agricultural product might compel a minority to observe uniform conditions of marketing by means of a statutory scheme controlled by the producers themselves, and milk, potatoes, hops, pigs and bacon were important products whose sale was controlled in this way.

Many of these schemes have aroused a good deal of criticism, for the real problem is to ensure that joint control is used for constructive purposes and not simply to exploit the consumer. To say that the amalgamation of firms *allows* of more economical and efficient production is not the same as to say that this will inevitably be the result. In fact, very often it is not; for the united organization, finding it no longer has to fear the competition of rivals, often loses whatever stimulus its constituent firms had to improve their methods and cut their costs. This is the dilemma with which we are likely to be increasingly faced. If businesses remain in competition with one another they retain a real stimulus to improvement and they are prevented from crude exploitation of the consumer; but the very fact of competition prevents them from effecting some of the most important economies. If, on the other hand, they amalgamate they find it much easier and simpler to raise prices than to reorganize their methods of production. The consumer loses on both counts.

The difficulty is to know what to do about it. In the United States there have been many attempts at what is

known as 'trustbusting' legislation, but with only limited success. The trouble is to define the thing that you want to stop, in such a way that you leave the agreements that work in the public interest and cramp the style of those who use their joint power in their own interest. During the inter-war years when the markets for many of our products were rapidly and disastrously shrinking, it was the possibility of saving industries from complete extinction by some degree of control that took the dominant place in people's minds and the dangers were ignored or discounted – hence the effort made by the Government to encourage what was euphemistically called 'rationalization' or 'orderly marketing' so as to rid it of the unpleasant associations recalled by the word 'monopoly'. But at the present time the situation is very different and there is general fear that monopoly control may give all the disadvantages of private enterprise without its compensating advantages. In the effort to guard against this there was passed in 1948 the Monopoly (Enquiry and Control) Act through which the Board of Trade has set up a Monopoly Commission, whose duty it is to investigate any industry referred to it by the Board of Trade, in order to see if any of its restrictive practices are against the public interest. On receipt of its report the relevant Minister is given power to act, but no principles are laid down to establish what does, and what does not, constitute an injury to public interest; so that presumably the Minister will have to be guided by his own personal views on the subject. Another unfortunate feature of the proposal is that there is no obligation on the Government to publish the findings of the investigation, whereas it is possible that wide publicity of the facts would do more than any positive action to induce firms guilty of acting against the public interest to modify their practices.

Another attempt to achieve the benefits of combined action without the fear of exploitation of the consumer is seen as the motive behind the Organization of Industry Act

which was passed in 1947. This act enables certain authorities (Board of Trade, Admiralty, Ministries of Agriculture, Supply, Works, Fuel and Power, Food) to set up a Development Council for an industry provided a substantial number of those engaged in the industry are in favour. Negotiation on questions of wages and hours is expressly excluded from the functions of such councils (since appropriate machinery for this purpose already exists in most industries) but they are to concern themselves with such matters as research into methods of production, training of employees, occupational diseases and the most economical utilization of labour; in fact, with anything which may be of value to the industry as a whole. Despite a good deal of Government encouragement there has been considerable difficulty in getting them established, partly because of the fear in many minds that it may prove impossible, in practice, to make a clear distinction between such obviously valuable functions and the use of combined action for more restrictive purposes.

CHAPTER 5

THE LOCATION OF INDUSTRY

IF you want a job in the cotton industry you know that you must go to Lancashire; if you want employment in making cutlery you look for work in Sheffield. In wool you would have rather more choice – the West Country and Scotland as well as Yorkshire – and in motor car manufacture you would be able to choose even more widely, though you would probably be wise to look first somewhere in, or near, the Midlands. If, on the other hand, you wanted to be a builder or a shop assistant or a clerk or a hairdresser or a school teacher you would probably be able to get employment in practically any locality in the country. What determines the siting of businesses? Why are some industries concentrated in a few areas whilst others are found all over? And what has made the concentrated ones choose their particular spots out of all the possible ones?

Let us take first the type of jobs that you find all over the country. There are some occupations that provide the day-to-day services for individuals and households and, as they must be done on the spot, they are necessarily as dispersed as the population. Personal services are included in this category, for such work as domestic service or hairdressing cannot be done by remote control. The same is obviously true of the work done by doctors or lawyers or teachers or the churches. With retail distribution, however, it is rather different. Goods could be, and often are, sent by post to households from a large central warehouse but, as most people prefer to choose their own purchases after inspection and don't want to go long distances for everyday shopping, the retail shops, and all their attendant occupations, are widely dispersed. All the

amenities for recreation are similarly spread out – restaurants, cinemas, theatres, football grounds and so on – because the communities they exist to serve are scattered.

Before the Second World War one would confidently have classed the building industry in this way, for houses built of brick must necessarily be erected on the site they are to occupy; but experience has now shown that it is not difficult to prefabricate houses in one locality for erection in another, and one might, therefore, find a concentrated building industry in the future. Even so, however, the amount of building labour required to prepare the site, put up the house, connect water and drainage, build roads, etc., must still be locally established, so that even if it became more usual to live in prefabs than in brick houses the building industry would still be more widely scattered than most manufactures.

If you examine these occupations you will see that they fall into two categories; either (1) they require close contact between producer and purchaser; this is true of domestic service and dentistry and house repairs and retail distribution; or (2) the cost of transporting the product is so high that the compensating advantages of producing it in one area, and distributing it over the whole country, would have to be enormous to make it worth doing; this is generally true of building.

But there are a great many industries, possibly the majority, in which neither of these two factors is so important and in which it is quite possible to produce the article in one place and distribute it over a large area. As we have seen in considering the size of businesses, the increase in communications has extended the size of the market that can be served by one plant, so that wherever large-scale production is advantageous, one might expect to find manufacturers serving as far afield as they can reach. But this does not explain why a large number of factories producing the same

thing congregate in one region and what makes them choose that area rather than another.

CHOOSING A SITE

At first thought it seems natural that such regional specialization should be closely allied to its particular natural resources, and, indeed, this has often been the case. You can expect to find a mining industry where there are coal deposits to be worked and shipbuilding where there are coal and iron and a good harbour in close proximity. But this does not get one very far, for it does not explain why the cotton industry came to be concentrated in Lancashire, which is about 3,000 miles from most of its basic raw material, or the pottery industry in Staffordshire, to which county most of its original materials had to be carried from Cornwall.

Modern industries need a great many things in addition to their prime raw materials – machinery of different types, power and labour to work them, and transport to get the finished products to market, and it may quite well happen that it pays to carry the raw materials over long distances, in order to avoid transporting machinery or fuel or workers. The business man wants to produce his goods as economically as he can, and get them to the purchaser in the cheapest and most convenient way, and it would be a very remarkable coincidence if he found a particular spot which was most advantageous from every point of view – basic materials, power, transport, labour and markets. He has to balance advantage against disadvantage and make up his mind whether, for example, it is better to have the expense of carrying his raw materials a long way in order to be near his market for the finished goods or save the carriage on raw materials but have to meet the extra cost of transporting his finished goods. As circumstances change, so do different factors take the determining place in this calculation. In the early years of this century there would have been some

excuse for confusing a map of the coalfields with one showing industrial concentrations, for the two were so closely connected. Nowadays, however, such confusion would be unlikely, for the emphasis of industrial development has changed greatly. Until the First World War the large majority of manufacturing industries relied on steam for their power ,and this made heavy demands on coal. As coal is a bulky article and expensive to carry it generally paid to settle the factory on or near the coalfields and bring all the other necessary materials there, rather than the other way round. When, however, electricity began to replace steam as the chief motive force this concentration on the coalfields was no longer so essential for, although electricity is generated from coal in this country, it can be carried long distances with comparative ease and cheapness. This allowed industries to give greater weight to other factors when deciding their location, and it happens that the type of goods with which our manufacturing industries are now mainly concerned induces producers to gravitate to other areas than the coalfields, if their power can be equally well provided. The outstanding development of modern production is that of the mass produced consumption goods – the sign of a general rise in standards of living. In all kinds of clothing, house equipment, radio, electrical gadgets, bicycles, gramophones, motor cars and their fittings, etc., technical improvements had so cheapened production before the war that huge new markets had been created for these things amongst the whole population – markets which had become so large that, even though the goods were produced by mass production methods, it was possible to offer a large variety of designs and alternatives. In such circumstances, producers were eager to be as closely in touch with their markets as possible, so as to be quickly aware of any changes in taste and fashion that might affect the size of the demand; and London, as the greatest and wealthiest centre of consumption, acted as a magnet, drawing more and more

of these new consumption industries within its orbit. Had manufacturing industry still depended on steam power, this would probably not have happened, for the cost of carrying coal would have most likely been enough to outweigh the advantage of being close to the market; but as electricity was almost universally employed this difficulty had not to be overcome. A striking illustration of this can be seen in a comparison of the growth of population in different areas. Between 1921 and 1938 (for, of course, the war years introduced important non-economic factors into the situation and cannot be included in this comparison) the population of Britain went up by 3,430,000 and 86% of this growth was concentrated in the Midlands and South-east. In that period Great Britain's population increased 8% but, whereas the South-east's numbers grew by 18·1%, the Midlands' by 11·6% and the West Riding's (the only other area to show an appreciable increase) by 6%, South Wales fell by 8%. This was not due to any great regional differences in birth and death rates but to the migration of young people in search of work, as the old export industries (coal and cotton and shipbuilding) declined and the new industries which took their place (motors, electrical apparatus, entertainment, furniture, etc.) were concentrated in the areas near to their richest markets.

There was another factor which influenced the development of the new industries in the Home Counties and the Midlands. Mass production methods do not usually require many skilled workers. A small nucleus of highly-skilled workers to set the machines and supervise those who operate them is enough; but the greater part of the work consists of repetition processes which can be done by men and women who have had no more than a few days' or a few weeks' training. In the suburbs of London and the Midland towns, there were large numbers of inexperienced women and young girls who were ready to enter these new factories. As

a general thing the supply of labour has not been as important a determinant of the site of an industry as the costs of transporting materials, or nearness to markets, because people have usually been ready to congregate in districts where there were chances of good work. Some small industries have occasionally established themselves in areas where the existence of a much larger one would assure them of the particular type of workers they wanted. For instance, sometimes a factory might choose to settle near the docks because it knew that the families of the men working there (the docks being an entirely male occupation) would offer a field of recruitment for jobs depending on female labour. Since the war, however, this has often been a major factor in the choice of a site. With such an acute shortage of manpower firms have to face the fact that there is little chance of attracting workers to them from other places and that it is wiser to find out first where there are pockets of unemployed workers available, and build their businesses there, even though it entails settling on a site which, from other points of view, would not be specially advantageous.

It would be foolish to pretend that the position of every industry is the result of careful rational calculation; in many instances it is due to nothing more than chance. An industry does not come into existence *en masse*; it begins when one or two firms try out a new idea for producing something that has not been done before or for doing an old thing in a new way. If they are successful other firms copy them and gradually an industry develops. There is a very strong likelihood that the originator of the new idea or method carries on his business wherever he happens to be, particularly if the scale of the firm is not very large. If it is the kind that *must* begin as a large unit and millions of capital are involved, it is probable that a careful survey will be made of the rival attractions of different districts, and there are, of course, instances in which even the owner of a small firm makes similar careful

enquiries before coming to a decision. But most industries start from small beginnings and the man who has the new idea is much more likely to start where he is, provided it is not a wildly unsuitable place. There are some good reasons for doing so apart from personal convenience. He knows the district and people know him, and these personal contacts can be of great help to him; he is more likely to persuade those he knows to give him a trial order and the firms from whom he buys his materials and equipment are generally more willing to give him credit. Then again, there are his personal ties which hold him to the place he is used to; he does not want to leave his family and friends unless he is forced to do so. Later on, he may find that another site would, in fact, have been more advantageous; but by that time moving is more difficult and expensive, for it entails giving up the buildings, fixed capital, contacts and organization he has built up, so that it will not be worth his while to do so unless the extra advantages of the other site are outstanding. This does sometimes happen. New firms, with more knowledge at their command before they begin, settle in the more favourable position and expand at the expense of those in the old area, so that gradually the main emphasis of the industry comes to be settled in the new district. This was the case with the cotton industry which had been started in several localities during the late eighteenth century but which was concentrated in Lancashire by the middle of the nineteenth. But it is not always so, and there are many areas to-day whose specialization is due more to the chance that it was the home of one of the founders of its main industry than to anything more fundamental.

ADVANTAGE AND DISADVANTAGE OF CONCENTRATION

Whatever the reasons that account for the establishment of the nucleus of an industry in one locality, there are very

strong reasons for the tendency of other firms carrying on the same work to locate themselves near by, for the economies of concentration, apart from those deriving from the locality, can be considerable. Here are some that are worth mentioning.

1. Firms specialize on particular processes, thus gaining all the advantages of long runs on their machines.

2. Subsidiary industries grow up to provide the necessary specialized tools or to do repair and maintenance work or to make use of the by-products of the main industry. If the industry were widely dispersed it would be too expensive to maintain contact, and to collect and despatch materials, for these subsidiary processes to be worth while.

3. Markets for the benefit of all can be organized more efficiently, whether it is for raw materials, for disposing of the finished product or for the different types of skill needed.

4. Packing, handling and transport facilities, specially designed for the products, can be provided. They could not be kept fully employed unless the firms needing them were near to one another.

5. The industry comes to be part of the common interest and concern of the locality. Research centres can be set up from which all can gain; local authorities find it worth while to arrange technical institutes in which young people can learn something of the industry; ideas are more easily discussed and new methods more rapidly disseminated when a large number of people have these interests in common.

These advantages are large and positive, but there is another side to the matter. A high degree of specialization may, at times, bring disaster to a region, if the whole population comes to depend for its living on the prosperity of only one or two industries, whose fortunes may suffer a serious reverse. Such was, indeed, the case in the period between the two wars, when the export industries, coal, cotton and shipbuilding, were extremely depressed. All these industries were highly concentrated and, as they declined, they dragged all

the other occupations associated with them into poverty. It was not only their own subsidiary industries that were affected but also the trades that had grown up to meet the needs of people employed in them. In some localities a third of the workers were unemployed and the rest living in constant fear that they would be overtaken by the same fate, because there was so little demand for all the things that people could possibly do without – such as new clothes and houses and furniture, cars and cycles and radios, restaurants and holidays and entertainments and so on – with the result that industries that were very prosperous in other parts of the country, where the main industries were expanding, were hard put to it to keep their heads above water in the areas surrounding the shrinking export trades. Thus was created the problem of the Depressed or Special Areas, which proved such a tough nut to crack throughout the inter-war years and which finally led to the demand that industrial location should be controlled in order to prevent a recurrence of such a disaster.

The repercussions of such a wholesale decline in prosperity are wider than are seen at first sight. As has been pointed out earlier, the expanding industries catered principally for those with money to spend on a higher standard of living, so that manufacturers of such commodities as electrical gadgets, furniture, or household equipment naturally enough did not choose to settle in areas where purchasing power was exceptionally low. Again, owners of factory and other buildings were not encouraged to put money into repairs and rebuilding and local authorities hesitated to spend the rates on general amenities, when there might be a danger of having no demand for them. So these districts took on a neglected and rather derelict appearance, which acted as a further deterrent to those who might otherwise have been persuaded to start their new businesses there. It must not be forgotten also that manufacturers have wives and families to think of and it is not surprising that most of these threw their

influence on the side of life in one of the new bright suburbs, rather than in the depressing atmosphere of a district that seemed to be going steadily downhill.

As a result of all this, there were no alternative occupations into which the unemployed workers of the declining industries might be absorbed, unless they moved away to the localities in which the new industries were establishing themselves, and thousands of them did so move, as is shown by the population figures quoted above.

But who are the people who are most likely to move in such circumstances? Not the older people, who have got their roots deep in their home towns, nor the young married men with families, who dread the insuperable difficulties of finding accommodation in towns where, as strangers, their names would be low down on the waiting lists for vacant houses and rooms. The groups who found it easiest to move were the unmarried men and women who were old enough to fend for themselves but had not yet undertaken serious family responsibilities. Many thousands of these moved away from their homes in search of work, leaving behind them the very young, the middle-aged and the old, with the unfortunate consequence that both the communities they left and the ones they went to became rather lopsided. The old locality was left with more than its proportion of people in need of care and assistance, while the new one, in which the young people married and reared their families, had more than its share of the young and virile section of the population, who would be the breadwinners of the future. During the inter-war years – between 1921 and 1938 – the number of men and women between 25 and 44 (the strongest section of the working population) increased three times as much in the South and Midlands as it did in the rest of the country (North, Scotland and Wales).

Such a transference of population as took place when the export industries declined is, therefore, cumulative in its

effects. New industries do not choose to settle down in areas where their markets are dwindling and where the most vigorous part of the community, the young men and women who can readily adapt themselves to the unfamiliar conditions of new types of work, are moving away. And just because the new industries do stay away, the market goes on shrinking even more quickly, and, moreover, it shrinks lopsidedly.

TAKING WORK TO THE WORKER

The attempts to break this vicious circle had had but modest effects before 1939. In the years following the end of the First World War, efforts were concentrated on removing workers from districts where there were large pockets of unemployed people who were unlikely ever to be reabsorbed into their original industries and, through the operations of the Industrial Transference Board, some few thousands of miners were helped to find work in other regions. Most of those who moved did so, however, through their own initiative, though mostly with the help and advice of the Employment Exchanges; and the consequent distorting effects on the structure of regional communities began to be apparent. It was then that opinion began to change and the slogan 'Take work to the worker' epitomized the new policy whose most striking development could be seen in the growth of the Trading Estates.

The Trading Estate (now renamed the Industrial Estate) owes its development to the belief that many light industries can be carried on with equal efficiency in almost any area in which they can be assured of (a) labour and (b) close proximity to a market. The Special Areas could obviously provide the labour; the question was, could they provide the market? In answer it was argued that the more firms that could be persuaded to settle in the area (and the more people were thereby earning good wages and salaries) the more demand

there would be for consumption goods, so that if only a nucleus of prosperous firms could be got going, each group of well-paid employees would provide the demand for the product of all the others, and hence act as an inducement to still more businesses to choose that locality. The problem was to persuade the nucleus group to come, and this is what the Trading Estate was designed to do. An estate was laid out with good factory buildings suitable for the light industries for which they were intended, electricity was provided, as well as good roads, transport facilities and the usual common services. The factories were offered for rent, on particularly favourable terms, to any new firm willing to settle there and likely to offer good employment to the population; and this proved a real attraction. Most new firms are eager to keep their capital resources for possibilities of expansion and welcome the chance to avoid locking up too much of them in the initial costs of building a well-equipped factory. This opportunity was given them by the Trading Estates.

The few Trading Estates that had been started had only just got into their stride when war broke out, and it is not possible to do more than guess at their possibilities. On the face of it, there would seem to be strict limits to the number that could usefully be established. As long as there were only two or three in operation those firms that were hesitating about their sites could be persuaded to choose one of them on account of the special privileges they could obtain. But if there had been twenty or thirty they would have had to offer such competitive advantages to lure a firm to one rather than another that the whole thing would have either become very expensive or pretty useless. However, this is only conjecture, for the war interrupted their growth; and the period since the end of war has had many abnormal, and temporary, features.

One question here demands an answer. Why bother to take work to the worker? Why not let an industrial area fade

out as the old industries decline? After all, this has happened before, as we realize if we look at the buildings of many of the old country towns in East Anglia or the West Country. The movement of industry, trade and population from one area to another is not a new thing, so why should we try to prevent it from taking place? Why should we assume that the industrial areas we know are, and must remain, the best and biggest industrial areas for ever and make such efforts to get new industries to settle down in places where the old ones are dying out or being much reduced in scale? There are many reasons.

1. First and foremost because the size of industries is now so much greater than it used to be that an immense amount of suffering is involved in the decay of an occupation that has employed hundreds of thousands of workers. The difference in degree is so great as to constitute a difference in kind. When a few hundred people are squeezed out of an industry their suffering is no doubt severe (for most of us are too conservative to welcome change of occupation) but it has not generally been found difficult for such a number to be reabsorbed fairly quickly into other types of work. But when a quarter of a million men, from one industry alone, become redundant within the short space of a couple of years (as happened to coalmining in the early twenties) it is a very different matter.

2. Industry now requires an enormous amount of fixed capital which cannot be moved to another district, if the industry for which it was intended declines and nothing else takes its place.

3. More important than the loss of industrial capital is the loss of social capital. Nowadays a great deal of collective provision is made for any sizable group of people in order to ensure the kind of life that is considered necessary in a modern community – roads, draining and sewerage, water, gas and electricity supplies, transport, schools, public libraries,

municipal washhouses and baths, etc. If a large proportion of the population, for whom these amenities are provided, have to move away in search of jobs these things cannot be transferred with them. They become a dead loss, long before their time of usefulness is over, and similar provision has to be made anew in the locality to which the people move.

One must, however, be careful not to put all the loss on one side. Many of the old towns are so badly laid out, with narrow, grim streets, dangerous roads, gloomy, ill-equipped schools, etc. (because most of these towns grew up before town planning was much thought of) that they defy real efforts at improvement, and there might be a lot to be said for the opportunity to start again from the beginning, where one is not so hampered by the legacy of the past.

4. There is another kind of social capital where the loss involved in moving from an old area cannot be made good so easily as in the building of houses and schools, and that is the intricate network of personal and communal relationships that plays so important a part in our lives. People don't usually leave their old towns as a group but as isolated individuals – one person goes here, a few there, all trying to squeeze themselves in, wherever they can find accommodation and work. If small numbers go to old-established centres of population they can soon find a place for themselves within its social life, but when new areas are becoming populated (as has happened in the Home Counties with the establishment of so many new industries) there are thousands of people drifting together but there is no existing social framework into which they can fit. This is so new a problem that we have only recently begun to realize how important it is. In an old town there are dozens of invisible ties between people that give the sense of belonging to one another; the church where generations of the same families have worshipped, the Mothers' Meeting, Sunday School, the local at which the same group has been meeting for years, the Trade Union

branch where you know all the other members, the Boy Scouts and Girl Guides for the children, the choir and the Darts Club – in fact, all the little or big interests and activities that make up everyday life. And even if you are not a member of many such definite groups there are other things that lift the sense of solitude. You know the neighbours will come in and help if there is illness in the house; the shops where you usually deal will be ready to give you credit if you strike a bad patch; you know the topics of conversation and even the customary slang.

But in the new place there is none of this feeling of being part of the place itself; and, often enough, newcomers have found that, despite their well-built new houses and clean roads, they felt starved for lack of social vitamins. Nowadays, very great efforts are made to get over this difficulty and to build up, deliberately and carefully, a social life and sense of community. But such things do not grow quickly and it is a great advantage to be able to earn a living without being forced to tear the fabric of social life.

The individual business of moderate size cannot be expected to take all these 'imponderables' into account when it is balancing the advantages and disadvantages of alternative sites. In the case of the rare firm that employs twenty or thirty thousand workers – the size of quite a large town if you count in their families – one can expect that a sense of social responsibility will allow these factors to have some weight; but the more numerous average-sized firm, reasonably enough, takes the social background for granted and makes its decision on more purely economic grounds. It is only society, acting as a whole, that can include these social repercussions in the debit and credit sides of the calculations, and there has, consequently, arisen a demand for positive planning of the location of industry. The aim is to ensure that regions do not develop as onesidedly in the future as they did in the past, but that there should be such variety of

occupations that a depression in one would not spell disaster to the area as a whole.

LIMITATIONS ON CONTROL OF INDUSTRIES

How far is such planning possible? Could the Government direct any industry to go wherever it thought proper or are there any limitations on its powers? This is not the sort of question to which it is possible to answer a firm 'yes' or 'no', for the position is different with different types of industry.

1. In extractive industry, for example, you have obviously not a great deal of choice of site. You can't decide to put a coal industry in an area in which nature has failed to do her part of the job, and even though a coalfield may extend over a fairly large area, the site of the pitshaft and surface workings must be determined primarily by technical factors. But as far as such things as building stone, or clay, or sand and gravel are concerned there is very much more opportunity to choose, for all these things are available in a great many places. As all of them, however, are bulky and costly to transport, the choice is not quite as free as it seems at first sight. For social reasons, you may want your workings in one place, though the houses are to be built in another, and the heavy transport charges involved push up the cost of housing. How much higher rent are you prepared to pay for so much social advantage?

2. We have to remember that the past has already happened and we can't undo it any more than we can unscramble eggs. There are many industries which, given modern knowledge and scientific ingenuity, could easily have been sited somewhere else than their present places; but if the industry is a heavy one, with immense quantities of capital equipment built on to a particular site, there is no possibility of moving it without incalculable loss. During the war an American shipbuilder showed that it was no longer essential to build ships near to the sea but that they could be

prefabricated in inland factories and merely assembled on the water. If this system were further developed there would be much freer choice for the location of shipyards than there has been in the past, but the advantages of building in this way would have to be fantastically high before it paid to move the existing shipyards from their present positions.

Other industries are similarly rooted because of their long association with a certain area and the resultant growth of many interrelated parts which could not be easily transferred. Such industries as cotton and wool, cutlery and pottery, have been intimately connected with particular regions over so long a period that a new firm, starting up away from the rest, is a little bit out in the cold and rightly fears the losses that it may incur through its lack of contact with the main centre.

3. In some instances, an industry which so far as its technical processes are concerned could be equally efficient in any one of a number of districts, finds its choice limited because of its close attachment to other industries that it exists to serve. This is true of such things as the manufacture of packing materials and boxes or of the finishing processes of textiles.

On examination of the different types of industry, then, we find that the number of industries in which we have freedom of choice of location is considerably restricted and that we are left finally with only one big section of production in which we can plan fairly freely where the plants shall be located – that is, the section making light consumption goods. As these are almost all made by mass production methods there is not a great deal of difference between the styles of building and common services they need for efficient work and, provided that there are cheap and quick transport facilities, adequate supplies of workers willing to man the machines and a good market nearby, almost any place will do as well as any other. It is in this section, therefore, that

control of location offers most opportunities; and as the new expanding industries are found predominantly in this section, it offers considerable scope for exercising a fair amount of public control over future industrial development.

WAYS OF CONTROLLING LOCATION

How could such control be exercised? It depends on whether the general organization of economic activities is part of a planned economy or whether it is predominantly unplanned, in the sense given to these terms in the second chapter. If the allocation of resources and the order of priority of wants is determined by authority it is, of course, a simple matter (and, indeed, an obvious and essential part of the functions of those in control) to decide the location of all productive work, whatever the reasons for which the choice might be made. The governing body may wish to have a diversified group of industries in each locality or to ensure the provision of certain facilities in time of war, or to establish a particular balance of town and country life; but whatever the determining considerations, it is not forced to take the 'profit and loss' factor into account, unless it wishes to do so. But, in an economy which is based on private enterprise, the situation is very different, for the decision regarding the uses to which the resources shall be put, the kind of goods to be produced and the techniques to be employed in their production are left to individuals who must calculate, as carefully as they can, whether the prices they are likely to get for their goods will repay the expenses they incur in getting them to market. No business is free to do exactly what it wants, for factory and public health law build a legal framework within which it is necessary to keep; but most Government control of independent businesses (i.e. businesses that are owned by individuals or companies and not by public authorities) is negative in character. Factory legislation, for example, does not say what methods shall be employed but only what shall *not*

be done; it does not direct employers to employ workpeople for so many hours but only that they must not employ them for *more* than the maximum permitted. Nobody need build factories or employ workers if they don't want to, but, if they *do* choose to do these things, they must comply with the regulations laid down for safety, health, protection of minors and so on.

With regard to the location of industry it is a much simpler matter to prevent firms from settling where you don't want them, than to get them to establish themselves where you *do* want them. If you prohibit businesses from putting their plant in a particular spot you leave them the choice of (*a*) whether they will have a factory at all anywhere and (*b*) where in all the non-prohibited places they will decide to have it; and if they do, in fact, decide to set it up somewhere, they have, presumably, made their necessary calculations and judged that it was likely to be worth while. If later events prove the calculations to have been wrong and that losses rather than profits are made, the firm has nobody but itself to blame. But, if the Government goes a step further and prescribes the place in which the factory must be established, it takes away the choice from the firm which owns it and leaves it to bear the losses that may result, if the position turns out to be disadvantageous. This is the chief difficulty about positive planning of location when the majority of businesses are run, as they still are, at private risk; and it is on this account that the control of location, in common with other forms of Government control, remains negative. It can stop further industrial development in some places by putting them, so to speak, out of bounds, but it can only get businesses where it wants them by persuasion.

Recent developments in State control of location have followed the lines laid down in the recommendations of the Royal Commission on the Geographical Distribution of the Industrial Population, whose report (the Barlow Report,

published in 1940) urged the importance of preventing further industrial congestion in Greater London and the need for encouraging a greater diversity of occupations in areas that had become too highly specialized. Towards the end of the war the Government, in a White Paper on Employment Policy, publicly accepted the responsibility for maintaining a high, stable level of employment by (amongst other measures) 'so influencing the location of new enterprises as to diversify the industrial composition of areas which are particularly vulnerable to unemployment', and the Distribution of Industry Act, 1945, was the result. The main part of this Act relates to the Development Areas (the new and more hopeful name for what used to be called the Special Areas and, earlier still, the Depressed Areas), and gives the Government power to encourage and assist the growth of new industries in these localities. Such basic services as transport, power, housing and health may be provided, derelict land may be reclaimed so as to improve the general amenities of the district, factories may be built and financial assistance may be given, either to individual businesses proposing to set up or to industrial estate companies (the new name for Trading Estates) providing industrial premises for new firms.

The Act came into force at a moment which was peculiarly favourable to its operations. With the conversion from a war to a peace economy there has been an acute shortage of factory buildings and there is little material and labour available to overcome this shortage. As no new building can be undertaken without a licence, the Government has been able to ensure that the large majority of new premises shall be built in Development Areas and there has, consequently, been a much greater amount of industrial building in these districts than in the rest of the country. This accentuates a trend which was already noticeable during the war years. Most of these areas had been judged fairly safe from air raids and, partly for this reason and because there were large

supplies of qualified labour available, many of the Government war factories had been established there, and the expansion of these war industries had provided a profitable market for a big increase in the service and consumption trades. The reduction in armaments freed a great amount of factory space and many firms were ready to settle in those areas simply so as to have buildings ready for them for immediate civilian production.

As acute shortages disappear these influences on location will lose their force, but another more permanent influence may take their place. The Town and Country Planning Act, which was passed in 1947, places on the local planning authority the duty of ensuring that new factories are well sited from the point of view of health and appearance, but any firm applying for permission to erect a building of more than a very modest size must be able to attach to his application a Board of Trade certificate stating that the development in question can be carried out consistently with the proper distribution of industry. This power to prevent factory building where it is feared that it may exaggerate industrial congestion still further has already proved its efficacy in the case of Greater London and the most congested part of the Midlands. Between 1932 and 1938 Greater London and the Midlands had 57% of all the new industrial development, whereas a comparable figure for the post-war years would be 19%. Although, therefore, the Government cannot dictate to independent firms carrying on business at their own risk exactly where they shall be situated, it can weight the dice whilst the choice is being made; and the developments since the war show that this power, negative as it may be, may have very positive results.

Indeed so strong has been this influence on the choice of sites during the exceptional circumstances of the post-war years that we may find ourselves, in the future, in the position of paying considerably for the social advantages at

which the Government has aimed. Many firms have been persuaded to establish in areas to which they would not have been attracted if left to make their own judgements on purely economic grounds. When the post-war scarcities are at an end and intending purchasers look at both sides of a shilling before making up their minds to spend it, we may find that this policy has defeated its own ends. To establish a factory in a particular locality does not necessarily mean that you are extending the opportunities for employment there; that depends on whether the goods produced in the factory are offered at such a price as to command a sale; and a manufacturer who is contending with local conditions that are even slightly inferior to those of his competitors may find this beyond his power. At present it is too soon to judge, but when we are considering the power of the State to control location it is important to remember that social goods, like anything else, have to be paid for, and that we may sometimes come to the conclusion that the price we pay for them is too much.

CHAPTER 6

MARKETS AND SHOPS

MOST towns and even many villages have a Market Place or a Market Street which marks the spot to which people from round about used, in earlier days, to bring the goods they had produced in order to sell them direct to those who wanted them. Such direct sale still goes on and, often enough, in the same place. Farmers bring their sheep and cattle and, in unrationed days, their butter and cheese and eggs to the country town and strike their bargains with people wanting them; but this direct contact between producer and consumer is no longer the rule. As a general thing we do not buy our goods from the firm that has made them but from a dealer or middleman. This is a natural result of the development of specialization, both functional and geographical. As enormous quantities of particular goods are produced by firms, or even by whole areas, which concentrate on one type of manufacture, it is necessary to establish connecting links between them and the masses of individuals who are scattered all over the country and, perhaps, all over the world, who want to buy what they make. This is the work of the distributor, and this chapter deals with the ways in which these connecting links are made.

There are many kinds of commodities which cost as much to sell as to make, and there are even some, particularly new kinds of manufacture, which cost more. How important a part of our economic system this job of distribution has become can be judged from the fact that about $12\frac{1}{2}\%$ of the whole working population is engaged in it. Not all of these are employees, for there is an exceptionally large proportion of small businesses in this group of trades; but altogether

more than two and a quarter million people are occupied in getting goods from the producer to the consumer.

Let us begin with the end of this with which most of us are familiar – the retail shop. This may be anything from the little village sweet shop with its few bottles of coloured sweets displayed in the parlour window to the gigantic department store which caters for practically every human need under one roof. The first Census of Distribution was taken by the Board of Trade in 1951 and a short report on the result was published a year later. This showed that there were more than half a million shops operating, which means more than one shop for every hundred persons – men, women, and children – in the community.

This total seems so huge that there are many people who insist that we are over-served in this respect and that a great deal of effort is wasted in distributing goods that could be better employed in making more of them to be distributed. They point to the duplication of small shops selling almost identical goods in neighbouring streets and argue that the consumer would gain if he got into the habit of making all his purchases in a central store which supplied a whole neighbourhood. Before we can judge in this matter we must get some idea of what a retailer does.

WHAT THE SHOPKEEPER DOES

If you think of the things we use during the course of a week or so you will realize what an enormous variety of goods we need to buy in quite a short space of time – many different kinds of food and household equipment, a reel of cotton, a collar stud, some tacks and screws, cigarettes, a bottle of beer, notepaper and envelopes – it is impossible to begin to list the hundreds of things we might include as ordinary day-to-day buying. Most of us have not the slightest idea where these things are made and, even if we had, we should have neither time nor means to get into touch with their manu-

facturers. The tiny amount we require of each article would not be worth considering by a maker who is turning out thousands of them every day and he could not spare time to send out innumerable small parcels to the thousands of individuals who want his products. Very often we don't really know just what it is we want; we have a vague idea of the kind of article that might meet our need, but we want to see many different kinds of goods displayed so that we can choose the one that we think will suit. We need somebody to advise us about the qualities and types and uses of unfamiliar products and show us how to make the best use of them. We want to be able to buy the amount we need when we need it and not have the bother and expense of storing a large supply; and we want to have goods delivered to our homes at convenient times. These are the wants that the retailer satisfies, and sometimes one is more important and sometimes another. Sometimes, all sorts of extra services and amenities are thrown in in addition.

It is simplest to consider all these functions one by one.

1. We don't usually give our orders for goods in advance, but expect to be able to buy them when we want them. The retailer must, therefore, take the risk of anticipating our wants and buying in advance the goods he thinks will satisfy us. In addition to the risk he runs that we may not, in fact, want the goods, or not in the quantities he has calculated, he has to meet the cost of storage (which covers the loss of interest on the capital embodied in the goods, as well as the provision of physical space) and the danger of spoiling. The cost, both of risk and of storage, varies of course with different kinds of goods. A piano shop must provide a lot of space and correct temperature but doesn't generally need to fear rapid changes in demand; a model hat shop needs small storage space but knows that fashion may change so suddenly that its stock may have to be drastically marked down. A flower shop has to reckon on the possibility that bad weather

may delay the visits of its customers until the flowers have lost their first valuable bloom; a greengrocer may be able to judge the demand for potatoes and cauliflowers but not be so sure of the tastes of his neighbourhood when he introduces something unfamiliar, such as pomegranates or corn on the cob; a crockery and glass shop is likely to have a bigger bill for damage and breakages during storage than a shoe shop.

2. The retailer buys in bulk and sells to customers in small quantities, so he has a lot of work to do in dividing up the goods he buys, sorting and grading them and packing them into parcels that are convenient to us. In some types of goods this work has been taken out of his hands and the products reach him graded, packed, labelled and priced, and ready for immediate sale to the customer. This is true of most cigarettes and chocolates, of many kinds of food, and household articles such as soap and cleaning materials, and it is likely to develop further. But there are still an enormous number of things in which the knowledge and skill of the retailer are required, whether in cutting a sheep into joints that are suitable for the family dinner, or dividing a roll of cloth into lengths to suit the customer's requirements. In some shops this sorting and grading of goods has to be done many times over because of their high degree of perishability. Soft fruit, for example, must be continually picked over and regraded, and this adds to the cost of the retailer's work.

3. Very few of us have expert knowledge of many of the things we buy, so we depend on the advice and information the shopkeeper can give us. The importance of this function varies enormously from one type of commodity to another. Some shops try to eliminate this part of the retailer's job altogether. In such stores as Woolworths, for example, all the available goods are displayed on the counters and the customer makes his choice without any assistance from the sales assistant, whose job consists solely of packing the customer's

choice and receiving payment. But this is the exception, though it may increase with the introduction of the self-service system into grocery and provision shops. Even in buying the most familiar articles of food we expect the salesman to help us by comparing qualities or by calling certain goods to our notice; and with less usual purchases we rely greatly on his assistance. A bookshop would soon lose its customers if the shop assistant had no knowledge of the insides of books and could not suggest a suitable present for a boy of ten or an old lady of seventy. When a woman buys a hat she expects the saleswoman to help her to pick the one that becomes her and is quite ready to pay the higher price that such service involves. Most new articles would never be tried at all if there were not expert salespeople available to explain and demonstrate their uses. This is particularly true of such things as vacuum cleaners, electric washers, television, pressure cookers, etc., but in a lesser degree it is true of all but the most usual and familiar kinds of goods.

Apart from the help given by the salesman to the individual customer the shopkeeper finds it necessary to provide a great deal of information for the use of his customers in general. Catalogues make known what is available and, though a good deal of the lavish presentation may be advertisement (of which more will be said later) some indication of what can be provided, particularly of new varieties of goods or of seasonable commodities, is necessary to enable the customer to make his selection. A similar part is played by advertisements in periodicals and window displays, both of which are partly a means of giving essential information and partly a means of attracting the notice of potential customers.

4. Even though most things are bought in small amounts a number of them together may prove too heavy or bulky a burden for the shopper to carry home, so delivery must be provided by the shopkeeper. In some instances, as, for

example, furniture, this is absolutely essential, but even if the weight is not very great, delivery is a convenience for which the customer is usually prepared to pay. Sometimes the buyer is given a choice and a small extra charge is made for home delivery; this is often the case with newspapers and groceries, but more often it is assumed that a fairly large proportion of buyers will expect it and the cost of maintaining an errand boy or a fleet of motor vans has to be included in the prices of the goods sold. In some districts, where the retailer knows that low price is more important to his customers than convenience, 'cash and carry' is the rule, and the customer is served on the understanding that he pays on the nail and takes his purchases away himself. In other instances, the other extreme is reached, for the retailer sends not only the purchases but the whole shop to the door of the customer by means of motor vans stocked with all the different types of goods he has for sale. This is naturally more usual in country districts than in the town, but it is not unknown in urban areas in the sale of certain types of commodity, e.g. household brushes and similar things.

5. Mention of 'cash and carry' introduces another function performed by most retailers – the readiness to give a certain amount of credit. Sometimes this may represent a very appreciable cost to the retailer; for example, the months or even years of credit given by a high class tailor, or the periods allowed by firms to customers who pay their accounts monthly or quarterly. Nowadays, however, the majority of purchases are made on a cash basis or the period of credit is so short – a week – that it does not add much to the retailer's costs, except in so far as it increases the amount of bookkeeping he must do.

6. In addition to these essentials there are certain amenities which cannot be said to be an integral part of the work of the retailer but which the customer has come to expect and absence of which he would resent. The shop must be

pleasantly and tastefully decorated, goods must be well displayed and the assistants are expected to give courteous and unrushed service. If the shop is of any size, lifts and escalators, a restaurant or tea room, an information counter and other such trimmings are looked for. Some part of this may be simply advertisement, to persuade customers to choose one shop rather than another; but a good deal represents the kind of environmental conditions in which consumers in a modern community expect to be able to do their shopping.

BIG AND LITTLE SHOPS

Although all retail shops perform most of these listed functions to some extent, they vary greatly in size and structure. Four principal kinds can be distinguished: (1) unit shops, (2) department stores, (3) multiple or chain stores, and (4) cooperative societies. There are a good many other ways through which goods reach the consumer, for example, automatic machines, mail order businesses, street hawkers, hotels and public houses (for cigarettes, popular medicines, cosmetics, etc.), but these four account for far and away the largest part of retail distribution. It was mentioned earlier that we cannot be certain of the total number of retail outlets and therefore we are equally ignorant of the precise proportions of the trade done by each of these four; but an estimate made in 1930 calculated that over 90% of the total outlets consisted of the unit shop – the independent tradesman owning and managing a single shop, usually on a fairly small scale – and although the average turnover was not very large, this group accounted for about two-thirds of the whole retail turnover. The average annual turnover of a department store was seven or eight times that of the unit shop, but as there were only about a thousand such stores their total was only about 15% of that of the former group.

Why has the small shop such a tenacious hold on life when at first sight the advantages seem to be so greatly on the side

of the big store? Far and away the most important advantage offered by the unit shop is the convenience that derives from its ubiquitousness. This can be seen if we consider the types of shop that are the most frequent. In a street of about a hundred houses (a usual size in most towns) we find that there is nearly always a grocer and a clothing shop; for every two streets there is a butcher; for every three, a sweet shop, a paper shop and a greengrocer. These all sell things we need to buy almost every day and we should not be willing to go any distance to get them. Even if we realize that we can get a larger variety of greens and groceries at a big store we prefer to buy from the shop at the corner and save a long walk or a bus ride. Children can safely run out to do the errands when the shop is close by or the odd purchases can be made by the man on his way to and from his work. Now that the smoking habit is so strongly entrenched, smokers will go to great lengths to get their tobacco and cigarettes and during the post-war shortage the confirmed smoker stood in queues or snooped from street to street to get his supply. But would the habit ever have become so firmly fixed if such quests had been necessary from the beginning, instead of being able to buy a packet of cigarettes every few yards along the road?

In the poorest districts of most towns there are large numbers of small general shops which 'cash in' on this desire to be able to buy a variety of goods in small quantities whenever we happen to think of them. Many of these do so small a trade that it would not be worth while for a large concern to open a branch there, but it forms a useful side-line to a family whose main living is earned in another field. The wife can combine the care of the shop with her domestic duties and the profits make a welcome addition to her husband's wages.

The majority of unit shops are not, of course, of this 'side-line' variety, but provide a reasonable living for the pro-

prietor and are often large enough to make it necessary for him to employ a considerable number of assistants.

It is not only its nearness to one's home that gives the unit shop an advantage. There are many people who prefer the single shop because they believe that they get more personal attention than at the branch of a multiple store. There is a pleasant feeling in being greeted by name and in the opportunity for the exchange of a little local chat. The manager of a branch may be just as anxious to bind his customers to him by friendly attentions, but he probably does not live in the area (for the managers of multiple shops get moved about for experience, and on promotion) and has not the same interest in its affairs.

In some branches of retail trade the single shop gains by its ability to build up a reputation for knowledge and taste. This applies particularly to such goods as antiques or jewellery or old books where the customer learns to rely on the advice of the salesman; he would not usually be offered such expert assistance in a large department store with dozens of different sections. The same thing is true of fashionable dress shops, where articles are designed to suit the individual purchaser and where the price charged includes the payment for the expert taste of the saleswoman.

At one time most luxury articles – flowers or gloves or beautifully packed chocolates – were sold by unit shops because of a certain degree of snobbishness amongst some customers who prided themselves on the fastidiousness of their demands; but nowadays, although this is still true to some extent, more and more of this class of merchandise is included in department stores.

The object of a department store is to offer such a wide variety of choice that it is worth while for the customer to make the journey to the place where the store is situated. The earliest such stores specialized mainly in drapery and fashion goods, in which wide choice is particularly desired,

but they have gradually added everything else from foreign travel to funerals. They reckon on the fact that one department helps to sell another. When a customer comes in to buy a dress, she may find it convenient to buy other things at the same time, or her attention may be caught by goods she sees on her way from the entrance to the dress section and for which she would not have come specially. It is, therefore, important for them to inveigle people into the store to have a look round, and to attract potential customers they often turn themselves into enjoyable social centres. A good many of the amenities they offer are really in the nature of bait, 'Meet your friends in —— Café' or '——'s Enquiry Office is at your service' and so on. The well planned buildings, the lights and decorations, the lavish window displays, the rest rooms and restaurants, the uniformed lift attendants and numerous attractively dressed saleswomen, are all part of the outlay necessary to make a visit to the store such an enjoyable outing that women (who form the large majority of retail shoppers) will look forward to their visit and deliberately postpone their purchases of as many things as possible until they are able to make the journey.

The increase in quick communications by motor bus and electric railway has added greatly to the potential market of the department stores. Thousands of women in the suburbs and small country towns look forward enormously to the weekly or fortnightly visit to the nearest big town where they can all do their shopping, have their hair dressed and meet their friends for meals in much more glamorous surroundings than are offered by the little shops near their homes.

Apart from its social attractions the department store has many of the advantages already discussed in connexion with large-scale manufacture. By extending its market it can spread its overheads so that costs are proportionately less and it can give better value for money than the small concern. Its expert buyers can acquire a comprehensive knowledge of

sources of supply and know where they are likely to find goods that will attract buyers. Its trade in most of its departments is sufficient to justify the employment of staffs with specialist experience and to stock a variety of goods that would be beyond the resources of most unit shops. It can get rid of goods that have failed to attract by offering them at bargain prices in the knowledge that many people who come to the store for these bargains will be caught by the more expensive and profitable goods that they see on their way to them. In fact, so outstanding are the advantages of such concentration of goods of all types in a central store that many people have argued that this should be the only shopping provision made in newly planned towns and that the unit shop is now an anachronism. Whether this is the right development or not depends on the qualities you rate most highly – efficiency of service and wide variety of choice with the bother of going some distance for them, or the comfort of knowing that you can run out for the odd box of matches or pound of coffee that you forgot to buy when you were out shopping.

The third method of retail distribution – the multiple shop, or, as the Americans say, the chain store – tries to combine the convenience offered by the unit shop with many of the advantages of large scale provided by the department store. They vary from the private shop which has done well enough to open a few branches in the neighbourhood to the giant concern with hundreds of branches all over the country. Where the number of shops is small, say half a dozen or so, and they are all near to one another, they do not differ to any appreciable degree from the unit shop; the owner probably specializes in buying the stock and in general supervision and can visit all his shops during the course of the day to keep an eye on the managers. He has the advantage over the unit shop that he can buy in large quantities and get the benefit of lower prices, quicker delivery or easier credit

terms, but, apart from this, there is little to distinguish this kind of firm from the single shop. But the chain store which has many branches dispersed in different towns has altogether different problems to cope with. Such chains have developed particularly in groceries, provisions and meat – the things the housewife wants to be able to buy easily close by her home. In many cases they sell goods they have manufactured themselves – e.g. Lipton's Stores – but all of them specialize in articles of standard consumption, many of which can be packed, labelled and priced before coming into the shop. In this way, they get the advantage of centralized buying and processing and so can offer goods at attractive prices. As they depend on a quick turnover their goods are fresh and they can dovetail the likes and dislikes of different areas by removing stock from one branch to another as occasion demands. Most such chain stores have a standard design and decoration of their shops so that customers get familiar with them and treat them as old friends when they come across them in another town. The shop front thus acts as an advertisement and keeps the store in people's minds. They register its existence even when they don't want to buy anything at the moment.

The province of such stores is rather limited, for it is difficult to supervise a staff that is scattered in small groups all over the country; and they tend to confine themselves to the kind of goods that are suitable for bulk buying and whose sale can be done efficiently by routine methods. Where variety of choice is demanded or where personal knowledge or taste are required, they have neither the advantages of the department store nor those of the private unit shop.

There is still another branch of retail distribution which does not fall clearly into any of the categories mentioned so far, though it might perhaps be considered as a special kind of chain store – the Consumers' Co-operative Societies.

These societies have a long history – the pioneer store was opened in Rochdale in 1844 – and they are by no means solely trading concerns. They are, in fact, an expression of a particular social philosophy and their development has been closely linked with that of other types of working-class association; but their principal work is that of shopkeeping and it is that side of their activities with which we are concerned in this chapter.

The Co-operative Society is an attempt to eliminate the profit-making middleman by organizing consumers into groups to supply themselves with the goods they want. Each Society is an independent self-governing body owned by its members, who constitute the purchasers of the goods stocked in its shops. It buys its goods in bulk at wholesale prices and resells to its individual members retail, and the profits that accrue are distributed amongst the purchasers every half year in proportion to the amount they have spent at the shop. One might ask, 'Why make profits at all? Why does the society not sell to its members at cost price, at an amount that just covers the expenditure of breaking bulk, maintaining the shop premises, paying the wages of the sales assistants and so on?' There are two benefits to be gained by not doing so.

1. By charging the usual retail prices the society is fairly certain that its overhead costs will be fully met and that there will be no risk of cutting itself too close. It is not easy to estimate the exact share of the overheads that should be borne by each article of stock; if a generous estimate is made there will still be profits to distribute after some time and if the calculation is too cheese-paring there will be danger of losses to be met.

2. The periodic division of the profits is very much liked by the members. A reduction in the price of weekly purchases by a penny or twopence would hardly be noticed, but the receipt of a few pounds at the end of the half year is a welcome event to the housewife of modest means. It is a

form of saving which is done without effort and helps the household to meet special expenses at holiday time, or when some new equipment is needed, that would otherwise be a heavy burden on the weekly housekeeping money.

The size of the co-operative societies varies enormously, from the very small ones with one or two tiny shops to the huge concern which maintains department stores in the big towns and a large number of branches in smaller districts. There are close on ten million members of all societies together and as most of them buy for a household this means that probably about a third of the whole population have some connexion with the movement. This does not mean that these households buy all their goods from the society to which they belong. Indeed, that would be very exceptional. The societies deal mostly in the goods of general consumption, milk, bread, groceries and the more or less standard kinds of furniture and clothing, rather than in those things which depend largely on the vagaries of individual taste. In fact, a recent estimate showed that 73% of their total trade was in food, tobacco and cigarettes. A great many of the goods they sell are manufactured solely for them by the Co-operative Wholesale Societies. There are two of these, one for Scotland and one for England, from which the separate societies buy their stock. Not all of it, or even most of it, is manufactured by the C.W.S. themselves; they buy from makers in order to supply the stores and, as they also distribute their profits to the societies that buy from them, the individual customer eventually receives this also in his 'divi'.

Many ordinary profit-making firms also produce for themselves the goods they sell in their own retail shops, but this is not usual. In fact, the variety of goods stocked by a retailer is so large that the shopkeeper cannot keep in touch with the many manufacturers who make them and relies on a wholesale dealer for his supplies. It is the wholesaler's job to act as a connecting link between the shop that sells to the indivi-

dual customer small quantities of many different goods and the manufacturers who produce a few types of article in immense quantities. He holds the stocks from which the retailers can replenish their stores to meet customers' requirements.

In branches of distribution – whether wholesale or retail – the size of the market depends to a large extent on the degree to which the goods for sale can be standardized. A housewife is quite content to order coal or groceries by letter or telephone because these things can be classified or described by name or number and she is confident that she will get exactly what she has ordered. She would hesitate to do the same when buying meat and salads and cheese (the careful French housewife would throw up her hands in horror at the mere idea!) but she would not even dream of buying a hat in this way. Some products, such as wheat and cotton, have classifications and labels which are recognized all over the world and immense quantities can be bought and sold by wire and wireless without any necessity for either side to see the goods that are the basis of their contracts. There are not, of course, many goods which have such a wide demand and that are suitable for standardized grading, but there are a very large number that can be bought by sample because, as they are mass produced, the units of a particular type are identical. Many wholesalers depend on their travelling salesmen to develop their markets by visiting the retailers with a collection of samples of the different kinds of commodity available; and the same sort of 'sale by sample' is done by stores which distribute by post their illustrated catalogues showing their most attractive goods. Many households in the country or smaller towns buy a considerable proportion of their equipment and clothing in this way, and if manufacturers were able to evolve a more efficient system of standardization of clothing-sizes there is no doubt that this would develop much more than it has done. At present the sizes vary from manufacturer to manufacturer and purchasers realize that

they run a serious risk in buying from the catalogue the sort of clothes that depend for their attractiveness on their fit; but already there is a wide market for the types of goods in which fit is unimportant.

Such developments of marketing as sale by grade and by sample are possible only in a community which has reached a high standard of commercial honesty. The purchaser must have confidence that the goods that are delivered to him will not only *look* like the sample he saw but that they are actually identical in every respect. Where the 'sample' is merely an illustration in a printed catalogue the buyer is pinning his faith mainly to the reputation of the firm, and many firms have spoiled their markets by over-glamourized illustrations and descriptions of the goods for sale.

IS ADVERTISEMENT A WASTE?

In an earlier section of this chapter, mention was made of the duty of the shopkeeper to inform the public of the goods he has available, and it was suggested that it was difficult to draw the dividing line between the expenditure in which he is involved for this purpose and the amount he spends on advertisement. Much of the lavish window dressing gives no information at all of the contents of the store but is intended solely to catch the eye and arouse the interest of the potential purchaser, and most of the amenities offered by stores are to be regarded more as decoys than anything else. The question that has now to be considered, therefore, is, 'What part does advertisement play in our economic world? Is it an advantage or not?' It will be seen at once that the second of these questions is ambiguous, for it can be taken in two very different senses: (1) Is it advantageous to the advertiser? and (2) Is it advantageous to the community as a whole?

Here I am concerned principally with the second meaning. It is unlikely that firms would continue to spend so much on advertisement and to rack their brains to find new

ways of attracting the customer unless they had come to the conclusion that it paid them to do so. The experience of most firms is that if they don't advertise they are sure to lose a considerable proportion of their trade to those who do. But suppose nobody advertised. Would there not be a net gain to the community, for all the labour and materials used in advertisement would be released for more productive uses? Before the war it was calculated that over £80 millions was spent annually on advertisement, of which Press advertising accounted for £35 m., posters and direct mail advertising for £27½ m., window displays for £10 m. and the remainder went on miscellaneous media such as films, radio, etc. This is a colossal total, and so it is worth while to consider whether the money was well spent or not. Let us try to make a profit and loss account.

IN FAVOUR OF ADVERTISING

1. Everybody agrees that the provision of adequate information is a necessary part of the work of the distributor. Hundreds of thousands of different kinds of goods are produced and we should waste an immense amount of time hunting them down unless the firms that are prepared to sell them tell us what they can provide. How is it possible to draw a line of demarcation between the means used by a firm to keep us informed of its wares and the efforts it makes to persuade us to spend our money on one thing rather than another, or to buy from one shop and not from a competitor? The information will not 'register' with us unless it is attractively given and frequently repeated, particularly with regard to the things we buy at regular intervals. How is it possible to distinguish what proportion of the expenditure is necessary to bring goods to the notice of the potential customer without overstepping the line of offering unnecessary persuasion? For example, we should be ignorant of the new books that are published – and consequently miss all the

pleasure they will bring us – if the publishers did not announce their names and authors through advertisements in the Press. They could, of course, give a closely printed list of titles in an obscure corner of the paper; but might we not justly complain that we had overlooked it and had missed the chance of getting a book that we should have enjoyed? As it is, books by which the publisher hopes to attract the buyer are announced in the spacious manner that is likely to catch the eye of the reader. How big must the type be before it ceases to be information and becomes advertisement?

2. Advertisement is necessary to introduce new commodities into the market and to explain their uses. Most of the things we now prize were not produced in response to the demand of the consumer; on the contrary, they seemed so strange that most of us would have been unwilling even to try them without a great deal of persuasion. We are creatures of habit even when the habit is irksome and inconvenient. Before the war, when household equipment was not so scarce as it is to-day, the vacuum cleaner salesman-demonstrator was a familiar figure in every suburb. He brought his wares to the door and demonstrated their use on the drawing-room carpet, and this convinced many more people of the help they would get from possessing one than any amount of detached, impersonal statements giving lists of facts about its composition and purpose. Sewing machines, radio, television, bicycles, washing machines, typewriters – in fact, practically all the mechanical equipment of modern life – must be included in this category of goods whose uses would be largely unknown without the persuasiveness of the advertiser who first got us to try them, and which have added greatly to the convenience or efficiency or amusement or pleasure of life.

3. Although advertisement costs must be covered by the selling price of the commodity, the net result of advertisement may often be that the consumers get it at a lower price

than they would have had to pay if it had not been advertised. The increase in the demand for the advertised article may be so great that production on a large scale becomes possible and opens the door to all the economies of scale mentioned in an earlier chapter.

4. Advertisement stimulates a continuous demand for an article, and this, by creating a stable market, reduces the waste, both economic and social, that is associated with instability in production. (See Chapters 4 and 10.)

5. Advertisement is a guarantee of quality. A firm that spends a lot of money in making itself known will not risk the loss of its reputation by offering shoddy goods or anything inferior to the standards it boasts of. The buyer can have confidence that the advertised article will be standard quality wherever he meets it.

6. The confidence felt by the purchaser in the 'sameness' of the advertised article simplifies distribution. Instead of spending a lot of time examining various qualities and consulting the expert salesman, the buyer can ask for what she wants by name. This is well illustrated by an imaginary conversation devised by the late Sir Charles Higham to show two different methods of buying cocoa in a grocer's shop:

(*a*) 'I want some cocoa.'

'Yes, madam, how much?'

'Oh, I should think a quarter of a pound; no, perhaps half a pound.'

'Thank you, madam.' He begins weighing the cocoa and packing it up.

'Is that good cocoa?'

'Very good, madam.'

'It's the best, I hope.'

'Well, I've never heard any complaints.'

'I suppose even cocoas vary.'

'Yes, they do, very much.'

'I thought the last lot I had was very tasteless.'

'I'm sorry to hear that, I think you'll find this better.'

'I hope so. How much?'

'One shilling and three halfpence.'
'Have you change for two shillings?'
'Thank you, madam.'
'Good-day.'
'Good-day, madam.'

(*b*) 'Quarter-pound tin of Cadbury's, please.' Customer puts the money on the counter. Salesman reaches out for the familiar tin and hands it over.*

As most firms supply a wide range of goods the confidence we get in one article predisposes us to try others from the same maker or distributor, and this again simplifies the buying and selling process. The variety of goods offered us is bewildering in its complexity; we can't pretend to know enough about them to choose intelligently, so when we see a familiar label or trade mark we are inclined to give the article a trial. This is very useful when we move from one place to another. We should have to spend a lot of time examining and comparing different products and qualities offered us by shopkeepers in the new place before we could find the thing to suit; as it is we can buy the advertised branded article wherever we go.

7. Advertisement stimulates the total demand for goods and thus encourages investment, production and employment. Many simpler societies remain poor because wants are so few that they see no reason to work hard enough to make use of the natural resources at their door. The greater and more varied our wants, the greater the incentive to experiment and to work and in this way to raise the standard of living.

8. Advertisement often provides a lot of enjoyment to the public. Thousands of women get great pleasure from 'window shopping' or from the use of the amenities offered by the big department stores. The bright lights and flashing signs may often be garish and vulgar in design, but how

* *Quoted* F. P. Bishop, *Economics of Advertising*.

much they add to the liveliness and gaiety of the streets was realized when they disappeared during the black-out.

AGAINST ADVERTISING

1. Although the provision of information is essential, this function of advertisement accounts for but a small proportion of the expenditure on it, and, in fact, a very large proportion of advertisements do not even pretend to give any details of the composition or quality of the goods they advertise. The pretty girl with the toothy smile who figures so frequently on posters and labels has nothing whatever to do with the goods she advertises, and there is not even a pretence that a good complexion or slender legs have any relation to the cigarettes or chocolates or holiday resorts or the hundred and one other things to which they try to draw our attention. The main purpose is to catch the eye of the potential buyer and to make a particular name so familiar that the person automatically thinks of it whenever he has a need for the article to which it is attached.

2. The chief objective of advertisement is to arouse and stimulate new wants or to induce buyers to change from old wants to new. Its main appeal is to emotion rather than to judgement. The girl who is afraid of falling behind in the 'attractiveness' race is persuaded that this lipstick or hair-wash will turn her into the glamorous queen of hearts she longs to be; the man who succumbs to the 'snob' car advertisement prides himself on the fastidiousness of his taste. Neither has the slightest knowledge of the things he purchases but obediently swallows the statements of the advertiser.

3. As the customer is not a good judge the advertisement is not, in fact, the guarantee of quality it claims to be. Whilst it is true that goods of markedly inferior quality will have a short-lived market, those that are not noticeably poor quality will continue to sell, because the purchaser remains ignorant

that he is paying for better value than he gets. And even those that are found out mostly last long enough to provide their producers with a handsome profit before the public learn to distrust the advertisement. None of us can judge the quality of more than a tiny proportion of the goods we buy as part of our everyday life, and even though we may pride ourselves on being unaffected by advertisements and are unable to remember the names of the advertised articles we do, in fact, find ourselves buying goods of whose construction we know nothing, simply because the names seem familiar to us.

4. The object of the advertiser is to convince us that his product is so superior to others that no other can be substituted for it. If he succeeds, he creates a monopoly which is based on the reputation he has gained, and has all the advantages in price control that accompany freedom from competition. It is quite possible that similar products offered by other firms do not differ to any appreciable extent, except in packaging and name, but if the potential customers have been persuaded by lavish advertisement of the excellence of those bearing a particular label they will not buy others even if they are priced lower. In fact, so little knowledge is it possible for most of us to have of the majority of the things we use, that there is even a possibility that we may favour the more highly priced article, if its advertisements are particularly appealing, because we are inclined to associate high prices and high quality.

5. The creation of 'reputation monopolies' increases costs of production because it leads to redundancy of design. The advertised article must *look* different from its rivals even if it is fundamentally the same, and that means that some obvious difference in design must be introduced. Each competing type must, therefore, be produced on a smaller scale than would be possible if the superficial differences were eliminated and stores must tie up their capital in keeping stocks of both designs, to suit all purchasers, when a much smaller

margin would be adequate if the two makes were accepted as substitutes for one another.

6. Advertisement leads to extravagance. As its aim is to stimulate changes in demand, consumers throw away articles half used, because an attractive advertisement convinces them that the new thing will be more enjoyable or satisfying.

Which set of arguments wins on balance?

CHAPTER 7

WHAT IS MONEY?

IN February, 1948, the Government published a White Paper called *Personal Incomes, Costs and Prices*, in which a warning was given of the dangers that would be inevitable if inflation were allowed to continue. The main argument was that the rise in prices of non-subsidized goods and services was due to an acute shortage of the things that people wanted to buy and that, therefore, it would only be accentuated by increases in wages and salaries. No advantage could accrue to workers – and a great deal of disadvantage to the country as a whole – if wages were pushed upwards before production had expanded enough to ensure that there would be goods available for the extra money to buy. You can raise wages and salaries as high as you like – £1,000 a week per person if you like that figure – but the standard of living would still be no better than the goods and services available make possible.

This distinction between money and wealth is one that has been brought home to us forcibly during the last few years. Many people now have twice the earnings they had before the war but they are very little, if any, better off because of the rise in the level of prices. Why has this happened? Who decides how much money is worth and why does it not remain the same all the time, as a yard does or a pound weight? This chapter tries to answer these and similar questions.

THE FUNCTIONS OF MONEY

First, what do we mean by money? It sounds a bit Irish to say that money is anything which behaves like money, but that is really true; so that we can most easily discover what money is by getting an idea of the work it does.

1. It acts as a medium of exchange. In the simplest form of exchange, money is not necessary. The brisk barter that goes on amongst schoolboys is a good example of this. John has more marbles than he wants, James would like more marbles and has stamps that he could spare; they do a deal. As there are not a great many articles that enter into this kind of trading most boys have a pretty shrewd idea of their relative value and no more higgling is needed than adds spice to the negotiations. In earlier times when most households produced for themselves the greater part of what they consumed, this simple form of direct exchange of goods for goods was all that was required. Nowadays, however, the position is very different because we are all specialized in our work whilst there are literally thousands of different articles that make up our pattern of life. If we had to get all these by barter we should have to spend most of our lives tracking down the person who owned the things we wanted and who also happened to want in exchange the kinds of things we had to offer. Money gets over this difficulty. We sell for money knowing that we, in our turn, will be able to buy what we want by offering money in exchange for it.

2. It acts as a measure of value. In Chapter 2 I described the way in which we all continually measure our preferences against one another in choosing whether we want a little more of this or less of that. Think how difficult it would be to do this if we had no common measure of our relative preferences. Or how could we express our indebtedness to people who had done a job for us? Suppose there was no money and we had to pay wages in kind – so much meat and bread and houseroom and so on. How could we cope with the differences of taste between those who liked beef and loathed mutton or those who didn't mind what clothes they wore but adored concerts? By reckoning values in terms of money each person is able to translate the value he receives into any specific form he likes and so gets a great deal more out of it.

3. It acts as a unit of account. How could we save for the future without money? If we want to put by something for our old age, there would not be much point in hoarding a few bottles of milk and half a pound of meat every week; but if we save the money value of these things it certainly is worth while to have it available to spend on the things we may want in the future.

Money, then, is anything that does these three things, and anything could be used for them so long as people had confidence in it. It doesn't matter very much what the thing is, provided that people believe that it is safe to accept it in return for their goods or their work, because everybody else will also accept it when they want to buy; so the one all-important characteristic of anything we use as money is that it should be widely acceptable. Many things have been used at different times in different countries – slaves, cattle, sheep, furs, tobacco, cowrie shells, gold dust and so on. They were generally the things that played a very big part in the life of the community that adopted them, so that their value was pretty well understood. Gradually gold ousted other things from use in all developed countries, because it is easier to carry about than most of the others, and one bit of it is as good as any other bit of the same weight (which isn't true of slaves or sheep or furs) and it can easily be divided into recognizable units without losing its value – i.e. coins – (which again is not true of cattle or slaves!) but it still depended for its use as money on its general acceptability, just as did the other goods I have listed.

Until fairly recently it was thought that nothing could be used as money unless it was also wanted for itself and not simply as a medium of exchange (gold, for example, was used for medicine and in industry as well as for currency) but this belief has long ceased to have any foundation in fact. In the days when we used gold coins, before 1914, I doubt if anybody ever said to himself, 'Well, it's really quite safe to

accept this gold sovereign because if the worst comes to the worst and I can't find anybody who will take it as money, I can always use it to have a tooth stopped or take it to a goldsmith and have it made into a ring for the wife.' Long before we gave up the everyday use of gold coins they had become simply token money, i.e. they were accepted as money and not because they had intrinsic value. Nowadays this is recognized in most highly developed countries and we are quite prepared to use forms of money which are worthless in themselves – such as paper notes and nickel coins – but which we know that everybody in the country will accept as tokens of so much value. Sometimes this confidence may be lacking and then the money ceases to circulate because people will not accept it. This happened in the chaotic period which followed the First World War when there were violent revolutionary changes in Government in some countries; and for a time their trade came to a standstill because farmers refused to sell their produce for money in which they had ceased to have confidence. Much the same happened in Germany after V.E. day, and until the currency reform of 1948 cigarettes were more widely accepted as the medium of exchange than any more customary form of money.

THE VALUE OF MONEY AND ITS MEASUREMENT

A yard of ribbon measures to-day exactly the same as it did in 1939 or, indeed, in any other year since the yard measure was established. Why doesn't a £ measure the same amount of value as it did before the war? The yard is an arbitrarily determined length; we have said 'This length *is* a yard and we'll always mean exactly this length when we say "a yard"'; but the value of a £ cannot be fixed by law in this way because it is simply what it will buy and the things that can be bought don't stay put. They are continually changing in amounts and varieties, and anybody who has money to spend can buy any bit of the goods available for sale that he

happens to fancy. Not only does the value of a £ change but it is very difficult to measure exactly how much it has changed. When we say that a £ is worth less than it was we don't mean that it will buy less of this one thing or that, but that it will buy less of 'things in general', and there is such an enormous number of 'things in general' that it is very difficult to compare them with what we could have bought at any other time. With £1 now I could choose between an almost endless list of goods for sale, beginning with a bit of the world itself and including anything from that to so many packets of pins. It would take me a lifetime to draw up the list for to-day and even if I could draw up a similar list for 1939 they would both contain such an immense quantity of items that it would be useless to attempt to compare them.

In order to get over this difficulty to some extent we use a Price Index which, if it is well composed, can at least give us some *indication* of changes in the value of money, and a good deal of ingenuity has gone into the making of indices for different purposes. As ordinary individuals, the prices that affect us most nearly are those of the goods that we habitually buy. Few of us would care a great deal if the prices of Rolls-Royce cars and champagne went up, because we never dream of buying these things, but if coal prices doubled or the price of our usual foods, we should immediately realize that the value of our incomes had gone down. For a long time the Government has compiled a price index which is intended to give some idea of changes in the value of money spent by an ordinary household. The trouble is to determine what *is* an ordinary household, for although there are few of us nowadays who are either very rich or very poor there are extraordinarily big differences between the patterns of expenditure of a coal miner and a schoolmaster, even though their present earnings are not widely different.

The problem first became acute at the beginning of the

First World War, when it was quickly realized that prices would rise steeply and that it would be necessary to have some clear way of measuring changes in real wages. Through force of circumstances there was no time for any comprehensive investigation into the pattern of working-class expenditure and a good deal of guesswork had to go into the making of the index. Some ten years earlier, in 1904, a couple of thousand 'typical' working class budgets had been collected and these gave some indication of the kinds of expenditure that bulked most largely in these households. For lack of anything better it was assumed that an index weighted in these proportions would provide the means for measuring changes in the real value of wages as prices altered. All that this Cost of Living Index attempted to do was to calculate the cost to a working-class family, month by month, of the purchase of the same goods and services, and in the same proportions, as had been bought for £100 before August, 1914, assuming that the pattern of expenditure was the same as it had been in 1904.

Nothing more could have been done at the time. There was neither labour nor leisure to find out how people really did spend their money and whether a rise in the price of sugar would have more or less effect on the standard of living than a rise in, say, the price of fuel or clothes. Moreover an enquiry undertaken then, even if there had been time to do it, would not have been of much value, for wartime shortages naturally caused involuntary changes in expenditure (just as they did during the recent war) which would be reversed as soon as goods could be freely produced again. As time went on the index grew fantastically inappropriate; for there has probably been no former period in which the habits of life of the mass of the population have undergone such profound alterations as during the present century. Particularly in the deflationary period of the twenties, when prices were falling rapidly, the combined effect of nation-wide

collective agreements and unemployment insurance benefits introduced into wage rates a greater degree of rigidity than they had ever possessed before, so that for those who *were* in employment real wages rose considerably. At the same time the spread of mass production methods in the production of consumption goods has brought a wide variety of commodities within reach of the working-class family and established new conventions of living. One has only to compare the clothing of the working-class woman of to-day with that of pre-1914 to appreciate the revolutionary changes that have been brought about. Forty years ago the working girl had one 'best' dress which had to last so many years that it could have no more than a nodding acquaintance with fashion; but the development of rayon textiles and mass produced clothing reduced prices so greatly, that the majority of working-class girls to-day can follow the mode just as do their richer sisters. What has happened in clothing has happened in many other things, and the wage-earner to-day has as varied a pattern of consumption as any other class. Furniture, kitchen equipment, curtains and radio play an important part in his household budget, and drink, tobacco and entertainments in his personal one.

The 1914 Cost of Living Index assumed a very spare way of life in which there was no margin for anything but the fundamental essentials. According to that index 60% of the income of the working class household went on food, 12% on clothing, 16% on rent and rates, 8% on fuel and light and only 4% was left for everything else. No allowance was made for drink or tobacco, nothing for furniture or household equipment and nothing for transport or other services.

A revision of the index would certainly have been undertaken earlier had it not been for the prolonged depression in many important industries; but it was believed that an examination of budgets at a time when nearly 3,000,000 households were living on unemployment insurance benefits

or allowances would not be of positive value in indicating the normal pattern of consumption. The enquiry was not, therefore, undertaken until 1937–8 and its results were not available until shortly before the war; so that action had to wait on a more favourable moment. A representative committee was set up to advise the Ministry of Labour when the war was over and the new Interim Index of Retail Prices was based on its recommendations and introduced in June, 1947.

The new index takes account of the much wider variety of goods and services that now figure in working-class expenditure and, based as it is mainly on the results of the 1937–8 investigation, it is interesting evidence of the way in which the proportion of the income spent on food and clothing drops as a higher standard of living allows a larger margin for comforts and luxuries. The proportion of income spent on food has fallen from 60% to 34·8% and on clothing from 12 to 9%, despite the fact that in both these categories the worker enjoys a quality, quantity and variety that were denied to his predecessor forty years ago. That rent and rates should drop from 16 to 8% is due mainly to the fact that rents have been controlled throughout the greater part of the period, while fuel and light show the least change, from 8 to 6·5%. But the most striking alteration is to be found in the new categories of expenditure now included for the first time and which show that 21·7% of the income is spent on drink and tobacco, 7·1% on durable household goods, 7·9% on services (transport, etc.) and 3·5% on miscellaneous articles.

The new index was published for the first time in July, 1947, with mid-June as the base date, which means that from that date the index measures the amount of money that would be needed by an ordinary working-class household to buy the same goods and services, and in the same proportions, as it could have bought for £100 in June, 1947.

The latest figure published is 140, which shows that prices had risen 40% since June, 1947.

As its name implies, this Interim Index was recognized, from the start, to be something of a stopgap measure until a more permanent index could be constructed; and, in December, 1950, the Cost of Living Advisory Committee were called together to consider whether conditions of spending could yet be regarded as sufficiently stable to justify the holding of a new full scale budget enquiry to provide the facts on which a new index might be constructed. In a report dated June, 1951, the Committee recommended that such an enquiry should be held and this recommendation has been accepted by the Minister of Labour and is now being carried out. When it has been completed we shall be able to institute a new Cost of Living Index based upon the pattern of expenditure that is now common to the mass of the community.

But the danger of such an index, however carefully compiled, is that we may expect it to do more than it is really capable of. The pattern of expenditure on which the weights are based is by no means universal, and, though we know this, we often use the index as if we didn't. We are inclined to say 'Prices have risen so much per cent' without reminding ourselves that this is true only of the prices included in the compilation of the index. There are thousands of working men and women who neither smoke nor drink or who do these things to a much smaller amount than would require 21·7% of their incomes. To them quite other prices would be of prime importance in determining the value of their wages to them. And besides these personal variations, there are great regional and occupational differences in customary ways of living. But if the index perforce omits these differences in working-class patterns of life, it is even less accurate as a measure of changes in the value of the incomes of other groups in the community than the wage-earners – for ex-

ample, the middle and professional classes. On the whole, these households spend more than the average on what may be called 'general overheads' – house rent and equipment, education, insurance, etc. Such expenses are usually the subject of long-term contracts and do not change as prices of food, clothing, tobacco, etc., change, so that an index which does not give appreciable place to these commitments does not provide even an approximately true indication of changes in the purchasing power of the incomes of these social groups. Unfortunately, the Interim Retail Price Index is the only one we have and so, inadequate as it is for the purpose, we get into the habit of appealing to it in all circumstances, particularly when negotiating new rates of wages and salaries; and very often agreements are tied to it, rising and falling by an agreed amount for every so many points of change in the index.

WHAT DETERMINES THE VALUE OF MONEY?

A price index measures changes in the value of money but it does nothing to explain *why* the value changes, and this is the question to which we now turn our attention.

When we decide that we cannot afford to buy something we want we often say 'I'd like it but I haven't enough money.' Suppose that by a wave of a magician's wand each of us suddenly found himself in possession of twice as much money as before, would our troubles be over? Should we each be able to buy twice as much? Definitely not, as we have ruefully learned during these last few years. Each of us could afford to offer double the prices for the things we liked but, as the amount of the goods in the shops and warehouses would not have altered, we could get only the same quantity of them, though we should pay more for them. Here is one thing, then, that determines the value of money – the quantity of money relative to the number of goods and services for sale. The more money there is available for making

purchases, the less will its value be; the smaller the amount of money in relation to the things for sale, the more value each bit of money will have.

But there is another thing to consider. We don't possess a fixed amount of money from which we constantly ladle out bits; we are continually receiving sums and continually paying out. We get a certain amount on pay-day and we spend parts of it during the period before the next pay-day. But we don't always spend at the same rate; sometimes we keep our money quite a long time before spending it, sometimes we spend it as soon as we get it. If there is a depression in trade and we are afraid that the future does not look too bright, we postpone buying whatever we can do without, until we see what is going to happen. The effect is just the same as if there were less money, and prices begin to fall. On the other hand, if we feel confident that we shall continue to earn good wages, we spend our money immediately we earn it, and the effect is the same as if there were a larger quantity of money, and prices go up. Once prices have begun to change the tendency is for the change to be exaggerated for the same reason. If we have made up our minds to buy a certain article – for example, a new coat or a radio – and we find that general prices are rising we think we had better hurry and buy at once, before the thing we want becomes more expensive; so we spend our money as soon as we get it and give prices a further push upwards. On the other hand, when prices begin to fall, we delay our purchases and wait for them to get lower still, and as there is less money circulating the level of prices goes down more.

HOW IS THE TOTAL QUANTITY OF MONEY DETERMINED?

Since the amount of money has such an important effect we have to know who settles it, and we cannot understand this until we are clear on the different kinds of money we use.

1. *Coins and Notes*

A weekly wage-earner usually receives his pay in cash – coins and notes. Both of these are legal tender; i.e. you have a legal right to offer them in payment of debts, but they are not both produced by the same authority. Coins are issued by the State through the Royal Mint, which has a monopoly of coinage and produces the number that experience shows to be necessary for the general convenience of the public. We use these coins only for small day-to-day expenses, and they form a negligible proportion of the total amount of money. Notes, on the other hand, are issued principally by the Bank of England (the Scottish banks also have the right to issue notes, but their total is too small to be of much practical importance). But the Bank of England cannot issue whatever it likes; it is governed by the terms of an Act passed in 1928 which allows it to print notes to equal the value of any gold it has in its reserves plus a fixed 'fiduciary' issue the amount of which cannot be altered without the permission of Parliament.

2. *Bank Deposits*

Many people receive their salaries in the form of cheques instead of coins and notes, and most wealthier people meet their expenses by paying cheques. A cheque is not money in itself (it would not be generally acceptable if you did not know the person or firm who has signed it), but it gives the owner of it the right to receive the amount of money named on its face. It is, in effect, a letter to a banker telling him to pay out of the account of the person (or business) signing it the amount specified. It has the great advantage over notes that it can be made out for the exact amount of the debt (there are no notes, for example, of the value of £3.11.2 and the payments we have to make are mostly these untidy amounts) and can be sent safely by post, because it can be drafted in such a way that it is of no value to anybody but the person for whom it is intended.

Although the recipient has the right to ask the banker for cash, he usually does not do so; instead he pays the cheque into his own account and his banker collects the amount due from the bank on which it is drawn. If both persons deal with the same bank, this is very simple; the sum standing to the credit of A is increased and that standing to the credit of B is decreased. If, however, A banks at Barclays and B at the Midland the sum would, in theory, have to be transferred from one bank to the other; but there are thousands of cheques being drawn every day by the clients of each bank in favour of clients of all the others, so that, through the medium of the Bankers' Clearing House, the banks can balance their mutual indebtedness and leave only the excess due from one bank to another to be paid over. Even this is not paid in actual cash. All the banks hold accounts at the Central Bank, the Bank of England, and the amounts due from one to the other are paid by transferring the necessary funds from one account to the other. In this way an enormous amount of monetary exchange can be done without the transfer of any cash at all; it is done entirely by bookkeeping, by the transfer of bank deposits from one account to another So that although cheques are not themselves money, bank deposits are.

HOW BANK DEPOSITS ARE CREATED

How does a person get an account in a bank and so acquire the power to draw cheques? The most obvious way, of course, is by putting some of his money into the bank for that express purpose. But not all bank deposits come about in that way; sometimes they represent a loan from the banker. The banker is under an obligation to pay cash for any cheque drawn on an account he holds, but he knows by experience that a comparatively small proportion of those who could cash cheques will, in fact, do so – it is so very much more convenient to pay them into one's account in the way just described. He knows, therefore, that it is safe to lend this

money to others who need it for business purposes. But he does not lend cash; instead he pretends that the borrower has put money into the bank and he agrees to honour his cheques up to a certain sum, i.e. he creates a deposit in his name.

By this method the banker creates money but he is not free to make as much as he likes. In this country there is no legal limitation to his power to lend; but he has to remember that anybody who has a deposit has the right to draw cheques for which cash may be demanded. In fact, a certain proportion of cheques must be cashed every day, for we all have day-to-day expenses to meet for which cheques are not suitable and, moreover, weekly wages are always paid in cash. The banker has learned by long experience what proportion of cheques will probably be cashed and he limits his loans accordingly. In general, he finds that he has nothing to fear if he takes care to have available enough cash to meet about one-tenth of the possible claims that might be made, and he keeps his loans down to this proportion. If he finds he is getting near the danger line he raises the price of loans to would-be borrowers – i.e. he puts up the rate of interest – with the usual result of a rise in prices, a reduced demand.

Who, then, settles what quantity of money there shall be? That is a very difficult question to answer because, in fact, nobody does make the decision. The amount of legal tender that is produced, i.e. the number of bank notes issued by the Bank of England, is authorized by the Government, which gives permission for an increase when it thinks there is need for a further supply of cash. As wages and some salaries are paid weekly in legal tender, the banks have to be ready to cash bigger cheques when wage rates rise and earnings increase, and so during the war and post-war years when there have been so many more people in employment at higher rates of pay than before, there has been a much bigger demand for cash for wage payments and the number of bank notes has risen.

But, as we have seen, most of the purchases that are made are paid for by cheques, which are not cashed but are placed immediately into another banking account; so that the quantity of this purchasing power seems to have very little relationship to the number of bank notes in existence. If business in general is prosperous men are eager to borrow from the banks in order to expand their production – i.e. to buy materials and equipment – and the banks, feeling confident that their loans will be repaid, are ready to lend. So, without any increase in the number of bank notes, there will be more purchasing power in circulation because people are buying goods and paying for them by cheques which the banks allow to be drawn on them. But if, on the other hand, trade is depressed and business men are afraid there will not be a market for their goods, they are not anxious to borrow from the banks and, even though the quantity of bank notes remains unchanged, there is less money as a whole in circulation because fewer cheques are being drawn. It is in this sense that we can say that nobody decides how much money there shall be as a whole, but this does not mean that it is impossible to *influence* the amount, and, in fact, this influence is now accepted as one of the chief responsibilities of the Government. During the last few years, for instance, the Chancellor of the Exchequer has been taxing us all extremely heavily and part of the heavy burden of taxes has been imposed on us for the express purpose of preventing us from buying the types of goods which are, and must remain for a time, very scarce. If we cannot buy these goods their manufacturers will have no need to attempt to step up the production of them and so will not be eager to borrow from the banks to build bigger factories or get new machinery. In this way the reduction of purchasing power is much more than would be represented by the amount of the tax itself and so the total quantity of money is kept less than it would otherwise be and prices are prevented from rising further in the vain quest to buy goods that have not been produced.

CHAPTER 8

IMPORTS AND EXPORTS

SINCE the war the volume of our export trade has become a matter of such common interest that even the music hall comedian includes references to it in his patter. Few of us can still be ignorant of the fact that we have been living on tick in a very big way and that, unless Marshall Aid had come to our help, we should have been unable to maintain even the austere standard of living that we have been enjoying during the last few years. Since this help was suspended in January, 1951, we are compelled to cut down our purchases from abroad unless we can export enough in exchange to pay for what we want. Before the war most of us did not take much notice of international trade; we should have been surprised to find the trade figures continually figuring in the B.B.C. news bulletins, and the only people who bothered very much about them were those who resented the fact that we were importing goods of a kind that would compete with the things they made themselves. There were many traders who wanted to prevent foreigners from sending their goods here to compete with British products and, probably, the most popular idea in most people's minds was that the flood of imports was a great deal too big. It was not often that we had to worry, as we do now, about whether we could get goods from abroad and how we would pay for them. Why has international trade broken into the news in this way? Why is the situation now different from before the war? Why can't we cut out the whole trouble and produce what we want for ourselves? And, if we can't, what settles the kind of things we do buy?

There is probably no part of our economic life about which there is so much confusion of thought. This is partly due, perhaps, to the fact that anything foreign is a bit more

difficult to understand than domestic concerns and, partly, because the whole subject has got itself so mixed up with politics that it has many sentimental and emotional associations which blur its economic outlines. For example, there are thousands of people who are indignant that we buy goods from some countries that do not import very much from us; they argue that we should trade only with those who trade with us. But they would never dream of choosing the butcher from whom they buy their meat on any such principle. There are thousands, again, who have an uneasy feeling that it is less laudable to buy foreign goods in preference to home-produced ones. Such slogans as 'Buy British', 'Keep trade in the family', which were very common before the war, are examples of this belief, based on sentiment rather than reason, that it is unpatriotic to buy from foreign sources.

DOMESTIC TRADE AND FOREIGN TRADE

Yet, of course, fundamentally trade between people in different countries is no different from trade between people in the same country; it is merely one example of the specialization of production which is so much more efficient than trying to do everything oneself. Note that I have said 'trade between people in different countries' and not 'international trade', for that, in fact, is what it usually is. At present the Government is responsible for buying from other countries the quantities of goods which form the essential elements in our consumption (such as meat, wheat, bacon, eggs and so on) because it has undertaken to see that we all get certain rations at prices that everybody can afford to pay. But this is a very recent procedure and is one feature of that central planning of our resources, spoken of in Chapter 2, which was a necessary concomitant of the rapid switch-over of production from its usual work to war purposes. Before the war it was very rare indeed to find Governments playing a big part as traders with one another, and even to-day it is exceptional.

So when we speak of *international* trade we mean simply trade between two individuals or firms situated in different countries, and not trade between two Governments. Even this is ambiguous. England and Scotland are two different countries but any commercial activities between, say, a firm in Glasgow and one in Manchester are included in the domestic trade of the United Kingdom. But if Scotland became an independent political entity, exactly the same items of trade would be listed as exports and imports, and would thus figure as part of our international trade.

If then there is nothing very different between domestic and international trade, as is evident from this example, why do we make such a fuss about it? There are a number of good reasons.

1. Countries differ from one another in laws and customs, language, food, manners, political rights and so on; and most of us are so conservative in our way of living that we should hesitate a much longer time before moving to another country than we should before moving to another place in our own country. But it is not only a question of moving ourselves; it is more difficult to get to know about the businesses in a foreign place; we realize that foreigners may have quite different tastes and wants from our own, so that, although we should invest capital or open a sales agency abroad much more readily than we should move there ourselves, there is nothing like the same ease of movement, even of capital and goods, as there is between two parts of the same country. As a consequence, specialization of production does not reach quite the same degree of development. When the cotton industry was first established in this country it was begun in several places, but gradually the outstanding advantages of Lancashire seemed so apparent that the whole industry was concentrated in that area. If the different counties had been separate countries it is unlikely that this would have happened, or, at least, certainly not so quickly.

2. Each country has its own monetary system, so that buying goods from somebody in another country entails getting hold of the right kind of currency to pay for them. At the present time, we want to buy a great many things from America, but our trouble is that we have not got, and cannot get hold of, enough dollars to pay for them all; so we have to choose to buy goods from countries whose currency we can acquire more easily, even though we may not like them as well.

Moreover you cannot always be sure of being able to buy the other currency for exactly the same amount of your own. As was explained in the chapter on Money, we accept currency for our goods only if we have confidence that we, in our turn, can exchange it for a definite amount of the goods or services we want. Sometimes this confidence is undermined because of international upheavals or because one suspects that the actions of the other country's Government may lead to a fall in the purchasing power of its money.

3. There is always a danger that the country from which we buy important supplies may be cut off from us by war. It is not only that we may be at war with the country that supplies us, but that cargoes from a friendly country may be unable to reach us because of hostilities with another; as, for example, during the two world wars, the submarine danger destroyed, or delayed, essential material from America to Britain. Most countries, therefore, are unwilling to become completely dependent on others for certain things they consider particularly necessary to their economy, and they continue to produce, inside their own boundaries, things which they could buy more economically from abroad.

4. Sometimes we use our foreign trade as a weapon in political bargaining. We give special privileges to traders of certain countries in order to get concessions from them or to buy their political support.

5. In modern countries the Government plays a big part

in the control of economic activities, either in laying down minimum standards and conditions of employment or in the more positive control of the allocation of resources. But no Government has authority over the activities of the producers and traders of a foreign country.

6. Quite a lot of the difference between domestic and international trade is imaginary, though this does not reduce its importance in practice. We cannot get into our heads that buying and selling goods abroad is exactly the same in essence as doing this at home. We do not think we are conferring a favour on one shop by buying an article from them instead of from another; we quite appreciate the fact that we do whatever we think suits our taste and our pocket. But if one is a foreign producer and the other a British one we feel we have to apologize for our choice.

Many people to-day think it is very wrong of the Government to keep us all short of nice things at home whilst the beautiful cars and textiles and other high grade goods are sent abroad. They think that exports should consist only of the surplus of goods that we don't want to use ourselves. Yet they do not think it wrong that the mechanic who makes the Rolls-Royce car cannot afford to possess such a car himself; they accept the fact that he specializes on making something he does well, and for which there is a demand by others, and that he must confine his own purchases to the amount of payment he gets for his work. Few of us believe that the greengrocer sells us merely the surplus of vegetables from his garden after he has taken what he needs for his family and none of us dreams of apologizing for buying our shoes from the manufacturer, instead of making them for ourselves at home. But we find it difficult to apply this to our external trade, and there are hundreds of thousands of people who believe that it is in some way 'better' or more praiseworthy conduct to buy from a home producer instead of from a foreign one. This belief leads many people to demand control

of foreign trade in favour of the home producer, either by tariffs to prevent the easy entry of foreign goods, or by subsidies to the home firm to give him a competitive advantage.

WHAT KINDS OF THINGS DO WE BUY FROM ABROAD?

The things we buy from abroad fall into three categories. As far as two of these are concerned, we gain so obvious an advantage that it is not necessary to do more than mention them; but the third class takes a little more explanation.

1. Natural resources are not spread evenly all over the world, and people living in areas which lack the things they want must buy them elsewhere. In this country there is very little gold or oil or uranium or bauxite; on the other hand, we have a large supply of coal. We can acquire the things we don't happen to have only by trading for them.

2. Most things that are bought and sold, however, are not natural resources but goods that have been grown or manufactured. If expense were no consideration most things could be produced in most places, but the cost of production varies enormously from one place to another. For example, it would be possible to grow rice and oranges in England if we were prepared to create the necessary conditions. But this would cost a very great deal, and it is easier to buy them cheaply from areas where natural conditions are more suitable. On the other hand, in this country we can produce certain manufactures more cheaply than elsewhere, because of our big mineral resources, advantageous geographical position and long tradition of good workmanship. So there is a general tendency to buy goods from other countries if they can be bought there at a lower cost than would be required to produce them at home.

3. But the third class of imports is more important and less easy to understand than these. It often pays us to buy from others goods which we could produce more cheaply ourselves, if we wished to make them. This is not such a para-

dox as it seems at first sight, for a moment's thought shows us that this is what we continually do as individuals. A clever business man could probably do his own bookkeeping more efficiently and more quickly than the man he employs for the job, but if he actually sacked the man and did the work himself he would be throwing away the substance for the shadow. It pays him to concentrate on the work he can do supremely well – the planning and organizing of the enterprise – and to buy or 'import' the services of a bookkeeper. He can make much more in a day's work as an organizer than he can save by doing the bookkeeping work himself. The same principle holds with the work of a whole community. It pays to specialize on those kinds of production in which the comparative advantages are greatest and to buy from others goods in which our comparative superiority is less marked, even though we might be able to make them more cheaply than those from whom we buy.

During our school days we were all taught that Britain is the workshop of the world, and this expresses pretty well the special emphasis of our share in international trading. On the whole, this country concentrates on the production of manufactured goods and imports chiefly food and raw materials. Until this century, raw materials were a more important part of our imports than food, for many of the kinds of food we buy now were then either unobtainable or too expensive for the mass of the population. But the great increase in the size of the population during the second half of the nineteenth century swelled the demand for food so much that it was impossible to grow more than a small proportion of what was required at home. Fortunately the development of quick reliable steam transport and the invention of refrigeration allowed food to be carried great distances without spoiling and made available to us the immense resources of South America, Canada, U.S.A., Australia and New Zealand. At the same time, the rapid

rise in wealth showed its effect in increasing demands for delicacies and luxuries that had been almost unknown to the working man of earlier times, so that tea, coffee and sugar, fresh fruit, fish and meat began to be consumed in much greater quantities. Before this war, then, the amount of food produced at home represented a comparatively small proportion of the total consumed. Only in oats and potatoes could we consider ourselves self-sufficient (in each case home production was 96% of the total) and of fish and vegetables we produced 85% of our consumption, but for most other foodstuffs we depended primarily on foreign supplies. Only a quarter of our wheat was grown at home and about the same proportion of fresh fruit; only 43–45% of butchers' meat and of pig products, 16% of the sugar and 9% of the butter.

One effect of this greater reliance on imports was to make our diet less seasonal. Our sources of supply were spread so widely over the world, comprising areas with different climates and seasons, that food was available from somewhere all the year round. In fact, when foreign supplies of all but bare essentials had to be cut down during the war, it came as a great shock to many people to realize for the first time that the agricultural cycle of seedtime and harvest is more than a picturesque figure of speech.

Yet despite the great increase in food imports, the value of imported raw materials was almost as great, and the majority of our most important industries, making both for the home and the export markets, depended for their existence on the materials bought abroad. Textile materials alone accounted for 27% of the total of raw material imports, and timber for about half that amount. Even the quarter of our total imports that were classed as 'manufactured articles' contained many items that were bought as essential elements in our own manufactures rather than as finished products for consumption. Iron and steel, petrol and oils, paper (for newspapers) and chemicals and dyes are all listed as 'Articles

wholly or mainly manufactured' because they are not sold until certain processes have been performed, and these between them represented close on 40% of the value of imports in this category; yet all of them are bought primarily as raw materials for home industries.

When we come to look at our exports we find the emphasis entirely the other way. Four-fifths of all goods sold abroad appeared in the category of 'Articles wholly or mainly manufactured' and, of these, textile materials alone accounted for more than 28%; even more if we include the clothing made from these textiles as well as the fabrics themselves. The other main items were machinery, iron and steel manufactures and vehicles (ships and cars) which, taken together, accounted for another 34%. Even the food and raw materials which made up one-fifth of our exports of goods would not have bulked so large had it not been for the importance of one item – coal exports – which accounted for well over half the total value of our sales abroad of raw materials. Before the First World War, cotton and coal filled an even more important role than later. Until 1914 cotton exports alone were a quarter, in value, of all our sales of goods of all categories together, and 100 million tons of coal were sold abroad annually. By 1938 cotton's share of total exports had dropped to 10% and coal sales to 46 millions tons. Yet despite the drop in both these markets, these two were still amongst the most important items in our external trade. If we list our pre-war exports in order of importance, cotton easily took pride of place, machinery and iron and steel manufactures came second (though a good way behind), and coal, woollen textiles and vehicles were close on each other's heels for third place.

INVISIBLE TRADE

One of the earliest lessons we learn is that we must do without the things we can't afford to buy unless we want to land up in Queer Street. The same thing applies to trade between

countries. We cannot continue permanently to buy more than we are able to pay for, and that means that imports and exports must balance one another – not, of course, each week or month, but over a reasonable period of time. In recent years we have been buying much more than we sold because we were living on credit and Marshall Aid permitted us to buy a great deal in America for which we shall not need to pay for a long time; but this was exceptional and temporary. Yet if we look at the records of international trade before the war – when no Marshall Aid or any other similar kind of generosity was available – we find that every year the value of our imports from abroad far exceeded that of our exports. In the last full year before the war – 1938 – records show exports to the value of £471 millions and imports to the value of £858 millions, and we should find a similar relationship in any other year we choose to look at. Were we then heading for the bankruptcy court? How did we manage to get more than we paid for?

The explanation lies in the fact that trade statistics cannot show all our imports and exports; they can show only those things that can be seen and recorded crossing political frontiers. But a great deal of trade is 'invisible' because it is in the form of services. When Americans come to England in the *Caronia* or the *Queen Elizabeth* they are importing our exported shipping services even though they seem to be travelling in the wrong direction for it. British shipping does a large part of the carrying trade of the world, not only between Britain and the rest of the world but from one foreign country to another; and whenever this service is done for a foreigner it is an 'export' just in the same way as a ton of coal sold abroad. Switzerland's most important export is an invisible one; it is the sale of hotel and guides' services to foreign tourists who come to enjoy the beauty of the mountains and lakes. Before the war, the amount spent by British travellers abroad was just about the same as the amount spent by

foreigners here, but we are now trying to make our hotels and restaurants and shows attractive enough to induce a larger number of people to come here for their holidays. If we are successful in this, everything they buy – not only food and lodging, but theatre seats, transport facilities, souvenirs, clothes and so on – is an addition to our exports even though all the sales are made in this country.

There are many such invisible items in trade – for example, banking and insurance services. As industrial development took place in England a long time before that of any other country, London became the financial centre of the world and British banks and insurance companies acquired such a world-wide reputation for honesty and stability that many firms and individuals in other countries used these services in preference to those of their own or any other country. Again, and largely for the same reason, many people in this country had capital that they were willing to lend when developments in other countries began to take place; this is an export of capital for which payment comes in the form of dividends, which allow British people to buy goods abroad for which no balancing export of merchandise need be made. In fact, imports and exports include everything, visible and invisible, for which payment has to be made by somebody living in one country to somebody living in another.

THE POST-WAR PROBLEM

One of the most difficult problems that faces us for the future is that our income from invisible exports is very much less than it used to be. This is by no means a new problem though it has been much exaggerated by the war; but already during the inter-war period it was shrinking so much that there were occasions when we could pay for our imports only out of capital – for our total export of merchandise and services together was not enough to meet the cost of our

purchases abroad. In 1913, the last year before the First World War, our invisible exports were so large that, after paying for all imports, we had £207 millions left to invest abroad, but in the twenties they shrank so rapidly that by 1926 we were £14 millions on the wrong side, and during the great depression of 1931 this deficit was as much as £103 millions. If we take an average of the last years before the recent war we were about £44 millions down each year, i.e. in all these years we were living beyond our current means, and it was only because of the fact that our fathers and grandfathers had saved so much that we were able to live at the standard we did. Even had this war not taken place we could not have gone on in such a way much longer.

There were many reasons to account for this distressing situation. The goods which had formed the bulk of our exported merchandise before 1914, coal and cotton, were no longer in such great demand. They were still the most important items of our export trade but their value had shrunk seriously. Electricity, generated from water or lignite, was rapidly becoming the chief motor force in world industry, and steamers were built to burn oil instead of coal, so that other countries were much less dependent on our coal than they had been in the past; and the cheap textiles of India and Japan could be produced at a cost with which our cotton industry could not compete. These were not developments for which the war alone was to blame; they would have happened in any case. Britain could not have expected to retain for ever the great lead in export markets which she had gained as a result of her early industrialization. Other countries were gaining on her already by the end of the nineteenth century and competition would have been pretty fierce even had there been no war. But the war of 1914–18 accelerated trends that would otherwise probably have taken much longer to develop and, at the same time, prevented the adaptation to changing circumstances which can be made so

much more easily bit by bit. The break in world trade lasted much longer than the actual years of fighting, for the post-war chaos in the foreign exchanges was so serious that it was not until 1924 that international trade can really be said to have been resumed on normal lines. The break was long enough to allow countries which had depended on Britain for their imported goods to establish new industries of their own or to turn to other sources of supply. Neither group was willing to withdraw when this country was once again prepared to supply its old markets and our industries had to face a permanently reduced market for their traditional products. Ten years is a long period when rapid changes are taking place and British industrialists had been cock of the walk for so long that they found it particularly difficult to cope with the situation. There had been periods of bad trade many times before, but the export industries had always weathered the storm and advanced to still greater prosperity when it was over. Looking back over the last twenty years we are now aware, of course, that the twenties posed a different problem from that of earlier depressions; but this was not clear at the time, and most of the managers of businesses in these industries simply waited for the tide to turn, as it had done in the past. Instead of the ruthless overhaul of techniques and organization that the situation demanded, most of those who were responsible for policy tried to save themselves from ruin by agreements not to undersell one another or to reduce their output so as to maintain their level of prices. How unsuccessful this policy was can be seen from the unemployment figures. If we take the decade 1927–36 (i.e. when the direct post-war effects had worn themselves out and before rearmament began) we find that the average rate of unemployment in coalmining was 24·6%, in shipbuilding 40·8%, and 22·1% in cotton, despite the fact that the numbers nominally attached to these industries had fallen very considerably – in coalmining, for instance, from 1,260,000 to 868,000.

The gap between the value of imports and exports of merchandise would have been even greater than it was during the inter-war period had it not been for the fact that the prices of agricultural produce and raw materials (our principal imports) fell so heavily at this time. The years following the First World War witnessed a new Agrarian Revolution when improved agricultural techniques and a higher degree of mechanization brought about a greater increase in productivity than could be easily absorbed by world markets (remember that the demand for most basic foods is very inelastic. See Chapter 2), so that it took a small amount of exports to buy the things we needed from abroad. Yet even so, the deficit to be made good by invisible exports continued to grow, so that by the period just prior to the recent war it was as much as 44% of imports.

Unfortunately the value of the invisible items in our balance of trade did not keep pace with the burden they had to bear. Of these shipping was the most important, and, as ups and downs in world prosperity are generally reflected in the demand for shipping services, it is no surprise to find a serious fall in the earnings of British shipping during the thirties, the time of the greatest depression the world has ever known. Though they rose when trade began to revive they did not again reach the figure they had maintained in earlier times. Overseas investments had also been appreciably reduced during the 1914–18 war, for we were concentrating on the manufacture of munitions, instead of goods for export, and it was a long time before this reduction was made up. During the economic blizzard of the thirties the income from these investments rapidly declined and, by the end of the thirties, we could pay for our imports only out of capital itself.

So even if there had been no war in 1939 our position in world trade would have been a matter of serious concern, for we could not have continued permanently to live beyond our means. Our income from all sources (merchandise and

services) was not enough to pay for imports of food and raw materials; and buying out of capital involved a continuously falling income from overseas investments. Either we should have had to find means of increasing the value of our exports or we should have been faced with the necessity of cutting down our purchases.

The recent war has exaggerated this maladjustment between our exports and imports so greatly as to create an entirely new problem and one of much greater urgency. For the first two years of the war – until the Lend-Lease system was introduced by Mr Roosevelt – Britain could get her essential war requirements from the U.S.A. only by paying for them on the nail; and for this purpose the Government drew on investments that British people owned abroad, to the tune of more than £1,000 millions, about a quarter of the total. It was lucky for us that preceding generations had saved so much, for, had it not been for the large volume of these overseas assets that had been accumulated in the late nineteenth and early twentieth centuries, the course of world events might well have been very different, and the Nazi regime might now be the dominant authority in the world.

By the Lend-Lease arrangement the cash payment for American war material was no longer necessary and the goods sold us by America were to be repaid after the war, not in money, but in kind. Even this, however, has been forgone, so that, through American generosity, the value of the material supplied to us by the States has become a gift, only very partially offset by the similar remission of payment for British goods and services supplied to U.S.A.

Yet, although so much was provided without payment, our dependence on American war material created a serious position for our industries. It was agreed between the Allies that America should undertake the responsibility of providing a great deal both of our equipment and of essential civilian requirements. As a direct result of this scheme, there

was a much larger proportion of our population engaged on direct war service than of that of any other country, and the conversion from a war to a peace economy has, consequently, been more difficult. Many important industries had been compelled to cut themselves down to token size and workers in millions had been drafted from civilian to essential war jobs. This could not be immediately reversed as soon as the war was over; time was needed to allow people to get back to their usual work and for factories to have a chance to re-equip themselves. It was in order to provide this essential breathing space that the American Loan was negotiated, by means of which America agreed to supply us with quantities of imports, payment for which is to be made over a long series of years. Unfortunately, no sooner had this arrangement been made than American prices began to rise, and an amount of credit which had been calculated to be adequate for the three years which conversion might be expected to take was exhausted in half that time. This unfortunate occurrence brought the problem of our international trade sharply into the forefront of discussion during 1947 and has made the volume of our exports a matter of acute interest to the general public. Once more, the extraordinary generosity of the American people came to the rescue and, by Marshall Aid, offered us the necessary respite. Together with fifteen other European countries we received a supply of dollars with which to buy American produce whilst we reorganized our economy. Britain's recovery has been so remarkable that we have been able to do without this aid earlier than was expected and as mentioned above Marshall Aid was suspended on 1 January 1951. From that date we are self-supporting.

There has been one serious and unfortunate exception to the general recovery of British exports; that exception is coal. Although the prolonged depression of the inter-war years had cut down its market so drastically, it still remained

one of our chief exports and 46 million tons were sold abroad in 1938. Since the end of the war, even with strict rationing of home consumption, the output of the mines had been too low to allow for more than a token million or two tons of coal for export; and during the winter of 1950–51 we actually had to import from abroad to meet our own needs. If we had still been able to export the pre-war amount we should have gone a good way to pay our way earlier, but coal production remains obstinately low. On the other hand, manufactures of all kinds show a happier record and the gap between imports and exports has shrunk a great deal. Does this mean that our problem is solved and that we have no need to worry about the future? Unhappily we cannot be so optimistic and already signs are appearing to show that there are dangers ahead.

The expansion of exports does not depend only on the increase in physical production, though that, of course, is essential; but we have to be certain that we produce the kinds and designs of goods that other people want and that we sell them at prices that compare favourably with those of possible rivals. For the early post-war years these matters were of less importance than quantity, because of the enormous arrears of demand for all types of goods, in a world that had devoted so many years to destruction on an unprecedented scale. But with every year the scarcity becomes less acute; demands shrink as arrears are made up and production expands as more of the ravaged countries manage to get themselves back into working order. The sellers' market for everything is unlikely to last, though there may be certain pockets in which it still rules; and though the expansion of production for export since the war has been so remarkable, it is equally noteworthy that cost of production has risen very greatly.

There is another difficulty, too, that must be considered. During the war we had to realize that we cannot increase the volume of one kind of production very greatly without

at the same time reducing that of others. It is true that the total volume of production as a whole is not fixed; we can produce more of everything by working harder or working longer hours or by persuading more people to come into the producing world (e.g. married women or the otherwise leisured classes) or by more efficient organization. But none of these is easy to do and, therefore, the total cannot expand very rapidly or without immense effort. Since the end of the war our increase in exports has been maintained by deliberately keeping the standard of living lower than it was before the war. By a system of fair distribution of what is available we have ensured that nobody suffers want, but we have had to forgo a large proportion of those goods and services which represent what we mean when we speak of a high standard of living – clothes and household furnishings, motor cars and bicycles, furniture and similar equipment and a host of other such goods that we should like to have in greater varieties or larger quantities. How long will people be willing to continue on this austere course? The lack of such goods becomes increasingly burdensome with every year that passes since the war ended, not only because there is a limit to patience, but because more and more of the existing material equipment of day to day life wears out and calls for replacement. The maintenance of full employment strengthens the pressure of demand for consumption goods. Before the war, when unemployment was never less than 10% of the insured population, the margin for anything but necessities was pretty narrow in most working-class households and manufacturers knew that they must search for overseas markets if they wanted to keep their factories working full-time. Nowadays the position is different and if the Government manages to maintain a high stable level of employment, as it has contracted to do (see Chapter 10) it will remain different. Unemployment has sunk down to around the 2% level and those in work, because of overtime and higher rates of pay, have earnings which are much above their pre-war incomes;

so that the amount of wage-earners' incomes that is available for the purchase of personal and household goods is both larger and steadier, and this puts a constant pressure on the scarce supplies.

We have to remember too that our desire for a better way of living shows itself in a collective form as well as in the individual's wish to buy. The community has set itself the task of providing for its members a comprehensive health service, more educational facilities, better built and equipped houses and the many other amenities included in the Welfare State, and all these involve a further pressure on resources. There is no doubt at all that money spent on these social benefits is a valuable investment for the future. The next generation will be healthier and better fitted for both life and work; there will be less waste of talent and the community will benefit in the long run. But it is equally true that they must use up resources at the moment which could otherwise be used for other purposes. The labour and materials that are put into building schools and hospitals cannot at the same time be used to build factories; the electrical engineers who make the prefabricated bath and kitchen units for the new houses cannot at the same time be making the machinery for manufactures; the teachers and nurses and orderlies, etc. in the schools and hospitals cannot also be engaged in producing material goods in the workshops.

We are faced by a very real dilemma. Here are the alternatives open to us.

1. We can appreciably increase the amount each of us produces, by longer or harder work or by finding ways of doing it better and more economically.

2. If we don't succeed in doing that we must continue on a lower standard of living, whether that expresses itself in less individual buying of goods we would like to have or less collective provision for social welfare.

3. If we don't do that we shall be unable to pay for our imported food and raw materials and shall then be *compelled*

to lower our standards of consumption on these essentials. The rearmament programme, with its claim on a larger share of our resources during the next few years, throws this problem into even sharper relief.

THE FOREIGN EXCHANGES

It was mentioned earlier that one of the big differences between domestic and international trade is that in the former all the people concerned are using the same currency, whilst in the latter they are not. Since the war we have all been talking about the 'dollar shortage'–about the difficulty we have in getting enough dollars to pay for all the things we need to buy from the U.S.A. How do we get hold of any dollars at all? We have to do so in the same way that we get possession of anything else we want, i.e. buying them with our money, that is, sterling. There are many people in America in the opposite position from ours; they have bought goods from England for which they must pay in sterling, and the only way they can get hold of it is by giving us dollars for the sterling we let them have. If there are more people who have bought goods from America than there are people in America who have bought goods from us, there will be a bigger demand for dollars than for sterling, and we shall have to pay more sterling for each dollar. That is why our foreign exchanges are now controlled and we are not allowed to buy foreign currencies without Government permission. We are not yet exporting enough to create such a demand for sterling as would equal our desire to get hold of dollars, and if we were allowed freedom to buy as much as we wanted, the value of our money in relation to that of America would soon decline. Marshall Aid allowed us to buy a great many essentials by giving us the dollars to pay for them, but there are so many other things, not strictly essentials, that we should all like to have, that if it were not for these controls our demand for the dollars to pay for them would raise the rate of exchange against us so seriously that

it would be even more difficult to buy our food and raw materials.

This is, in fact, what has happened as a result of the devaluation of sterling. During 1949 the gap between exports to dollar countries and imports from them continued to grow rapidly, so that serious inroads into our gold reserves had to be made to pay for what we bought; and in September of that year Sir Stafford Cripps, the Chancellor of the Exchequer, announced that we had felt ourselves compelled to alter the value of the £ in terms of dollars. Instead of being able to buy 4·03 dollars for a £ we should, in future, get only 2·80. This had two effects: –

1. By making everything we buy from a dollar country more expensive in terms of our money, it induces us to cut down our consumption.

2. By making everything we sell to a dollar country cheaper in terms of *its* money, it persuades them to buy more from us. But this second result continues only so long as we don't raise our prices. If we do this, of course, it cancels out the advantage we should otherwise enjoy.

Here is the real difficulty. As we have seen, we buy a great deal of food and tobacco from America and the devaluation of the £ makes these more expensive. If wages go up on account of this rise in the cost of living, so too do costs of production, and hence selling prices of our exports – unless, that is, both workers and management appreciably improve their efficiency at the same time.

Devaluation, therefore, is not itself a solution to the maladjustment between imports and exports; it is, rather, a recognition that such a maladjustment exists. By automatically raising the cost to us of imports, it forces us to cut down our purchases of those things which must be paid for in dollars, and thus lowers our standard of living. If we are content with this situation and prepared to resign ourselves permanently to this lower standard, we can bridge the gap

between imports and exports in this way. But if we want to get back to our old standard, or raise it still higher, we must find some way to increase, very materially, the value of what we sell to dollar countries; and we can do this only by offering them the kind of goods they want, at prices that compete favourably with those of our competitors.

The strict control of the foreign exchanges is a post-war emergency measure due to the lopsidedness into which international trading has got itself as a result of the war. In more usual circumstances, before the war, trade was multilateral, i.e. there was no need for the amounts traded between two individual countries to balance one another in order to keep exchanges stable. For example, the United Kingdom bought from the rest of Europe almost twice as much as she sold in that area, but, on the other hand, she exported much more to the tropics than she bought there; and the large proportion of her imports which were paid for (as shown above) by invisible exports did not necessarily come from the countries to which she sold shipping and banking and tourist services.

So far I have written as if the only demand for another country's currency was to pay for goods or services received; but we often buy the currency of another country for quite a different reason. Suppose I believe there is going to be serious inflation in my own country – that is, that the price level is going to rise very high; I might try to export whatever capital I possess to another country where I thought it might have more chance of keeping its value. Or suppose I feared that there was going to be a revolution and that my capital would be confiscated; again I might try to export it to a country I judged to be safer. In such circumstances I should be buying another currency because I thought it a better storehouse for my wealth, and not to pay for the goods I had bought. Yet my demand would have exactly the same influence in increasing the relative value of the currency I bought

and would make the rate of exchange of the currency I was selling less favourable. The trouble with such demands is that they fluctuate violently with every change in the state of political nerves and make the foreign exchanges jump about in a manner that is incalculable and unpredictable. Such fluctuations are a terrible nuisance to ordinary trade, because you never know from one day to the next how much the goods you buy are going to cost you. You contract to buy them at a certain price, which you have mentally converted into your own currency, but by the time you come to pay for them the rates of exchange may have altered so completely that the price represents something quite different from your calculation, and a transaction which would have brought you a reasonable profit is changed into a thumping loss. One of the most serious problems with which we are confronted in the modern world is the prevention of the jumping about of this 'hot money' which sends foreign exchanges haywire.

Until the First World War we had a gold standard, and one of the chief reasons for the attempt to recover and retain it was that it prevented more than a very slight change in foreign exchange rates. If you always had the choice of paying your foreign debts in gold (which you could always buy at a fixed price) as an alternative to bargaining for the other country's currency, it is fairly obvious that the rates of exchange between the two currencies could not vary by an amount which exceeded the cost of buying and transporting an appropriate amount of gold. But the gold standard had other disadvantages which proved so great that it was decided they were not compensated sufficiently by the stability of the foreign exchanges, and the Exchange Equalization Accounts which were set up in the thirties, by this country and the U.S.A., were an attempt to achieve the same ends by other means. The aim was to separate the buying and selling of 'hot money' from the sale of currency to pay for

goods and services. The money which jumped about for political and psychological reasons was not allowed to become part of the stock of circulating money; so that wads of it could come into the country or leave it, according to the state of people's nerves, without having any effect on ordinary trade.

The importance of stable exchange rates in promoting international trade has been recognized in the Bretton Woods agreement signed by forty-four nations, as a result of which the International Monetary Fund was established, and has since been joined by others who were not original signatories. The members of the Fund agree to fix the value of their currencies in relation to gold or to the U.S. dollar (of a definite gold value) and not to alter this value without consulting the Fund. In addition the Fund maintains a pool of currency, out of which members whose currencies are temporarily in poor demand may be allowed to buy what they need to honour their trading debts, until their increased sales to other countries restore their position.

TARIFFS AND FREE TRADE

Since the war we have not been able to buy the currency of most other countries without Government permission, and the import of goods from these countries has, consequently, been so strictly controlled that it has not constituted any serious competition with home-produced goods. But this situation will not continue indefinitely, and when our exports have expanded sufficiently to allow currency controls to be relaxed with safety, large quantities of foreign goods will once again find a market in this country. When that happens there is no doubt that the fierce controversy between those who wish trade between us and other countries to be free of restriction and those who wish it to be controlled in order to protect the home producer, will break out again.

There is probably no economic issue which has engen-

dered more heat than this, nor any which has become so blurred by emotional and political associations. There have been times when the supporters and the opponents of tariffs have seemed like two armies locked in a religious battle in which each is convinced that he has God on his side. Now there has been a lull in the controversy it may be possible to consider the question a little more dispassionately and see what can be said for each point of view.

First of all let us get clear what the argument is about. A tariff, in the sense used in this controversy, is a protective import duty, that is, it is a tax imposed on goods entering the country from abroad, when no such tax (or a much smaller one) is levied on similar goods produced within the country; and the effect, of course, is to make the foreign goods relatively more expensive and so induce us to buy more from the home consumer.

Is this a good or bad thing to do? Well, it all depends what we are aiming at. A course of action may be advantageous from one point of view and disadvantageous from another, and what we think on balance depends which point of view we think the more important. This simple fact is generally forgotten when people get really excited about tariffs, and this accounts for a good deal of the bitterness of the dispute. Sidney Smith, the great eighteenth-century wit, once saw two viragoes hurling curses at one another from the safety of their own houses on opposite sides of the street and remarked 'It's a pity those two women can never agree; they are arguing from different premises.' It is the same trouble with so many tariff disputes; the two sides are arguing on different planes. There is no harm in this so long as they recognize it, but they rarely do.

You might argue, for instance, that agriculture provides a way of life which is of value in itself and that a community which allows itself to become entirely urban and industrialized is too unbalanced for social health. In this case, you

might believe that it was worth while to encourage a larg farming industry, because of its social or cultural effect despite its economic disadvantages. Or again, you might insist that security is more important than wealth and that it is wiser to make sure that certain essentials are produced at home, even if we have to pay more for them, so as to ensure supplies during war. But the essential thing is to face the fact that these objectives – whether the better way of life you want with a balanced community, or the greater security by making certain of essential goods – have to be paid for; and not to assume that because a thing is desirable for one reason, it follows that it must inevitably be equally desirable for all others. The sensible course is to accept the fact that the tariff will make us poorer, and then to decide how much poorer we are prepared to be for the sake of the other things we want. How much more security, for example, for being such and such an amount poorer?

You will notice that in the foregoing paragraph I have written as though tariffs would certainly be condemned if economic issues alone were involved; and this is, indeed, on the whole true. This is one of the very few questions on which economists are agreed. This does not mean that no economists are in favour of tariffs; many support them for social or political reasons, but they are agreed that they do not lead to greater wealth than free trade, but that, in fact, they do the contrary. It is not difficult to see why they are so sure of this. A tariff interferes with the freedom of choice of the purchaser, and consequently reduces the value he gets from the spending of his income. As we saw in Chapter 2, the great advantage of the price economy is the opportunity it provides for the consumer to lay out his income in the way that will satisfy his wants most nearly, and, though we have sometimes restricted his right to do exactly as he would like, we have generally done so on grounds of social justice or administrative convenience. If a tariff is necessary in order to

induce us to buy from the home manufacturer rather than the foreign, it follows that the home articles are offered at a higher price for the same quality, and this means that, if we wish to satisfy this want, we can do so only by laying out a larger part of our income on it than we needed to do before, and so have less left to satisfy all our other wants. Suppose, for example, that, quality for quality, imported wheat is cheaper than home-grown and that, in order to ensure that the British agricultural industry shall not decline and shall be able to sell its dearer produce, we put a tariff on wheat from abroad, the effect will be to raise the price of bread to the whole community. The demand for bread is inelastic (see Chapter 2) and so we should not cut our consumption very appreciably, but should have to spend more of our weekly income on bread than before. As our incomes would not rise to allow for this, we should have to decide what to cut down, and each of us would choose the thing he cared least about; for some it would mean less on clothes; for others fewer chocolates, or fruit, or cheese, or a visit less to the cinema or the dogs. It is true that the farmers and their workers would be better off than before the tariff, for the former would have a bigger and more profitable market for their goods and be able to offer steadier employment to their workers. But ours is an urban civilization; only about 8% are engaged in agriculture. So 92% of us would find our incomes less valuable in comparison with the 8% who would gain.

The difficulty in realizing this comes from the fact that all the gain is concentrated at one point – the protected industry – and can easily be seen, whereas the price paid in reduced consumption of other goods and services is widely diffused and so is overlooked. It is not only the loss each of us feels in having less satisfaction out of our individual incomes, but also the fall in profits and employment in all the different industries that must be cut down because we

cannot buy as much from them, the reduced need for shipping and dock work and transport to carry the imported goods, the smaller demand from abroad for our exports because the foreign producer cannot buy when his own sales fall off, and so on.

There are circumstances, however, in which, even on purely economic grounds, a good case may be made out for the imposition of a tariff. We force people to spend money on education and public health measures that they would not have spent if left entirely free to make their own choices, and we justify this, partly, it is true, on social grounds, but also because we consider it a sound capital investment. A healthy well-educated community will make better use of its resources and, as the individual is not always sufficiently far-sighted to realize this, nor sufficiently reasonable in his behaviour to act on it if he does, we take the decision out of his hands and, as a community, invest part of our national wealth in this kind of collective provision. There are similar possibilities of developing valuable economic resources through tariffs.

The relative advantageousness of carrying on a particular industry changes from time to time, as knowledge grows, and as increased transport facilities bring sources of raw material supply and new markets within reach. For example, the growth of manufactures has become more possible in the New World since the development of electricity as the chief source of power; and the rise of the dyeing industry in this country has taken place only since the increase in knowledge of industrial chemistry. When an industry begins, it has many technical and marketing problems to solve, which may involve it in heavy expenses, and it may happen, therefore, that a comparative latecomer in a particular field may have great difficulty in getting a foot into the market, because of the long-established prestige of its competitors. If it could get a chance, it would eventually prove itself fully competent to

take its place amongst all rivals – the difficulty lies in persuading possible consumers to give it a trial. If it were given a privileged position in the home market, this might give it the time to get over its teething troubles, and grow up to stand on its own feet, and so it is often argued that new industries, which look as though they would be able to become independent of artificial support within a reasonable time, should have a special claim to protection during their infancy.

It is significant that the majority of tariffs of the modern world came into being because of the force of this 'infant industry' argument, and this draws attention to the difficulty associated with it. It is much easier to put a tariff on than to take it off. It is almost impossible to persuade an industry that it has reached man's estate and must begin to fend for itself. Whenever such a suggestion is made all sorts of arguments are put forward by the producers in the industry to show why the moment chosen is peculiarly unsuitable, and all the organized pressure of those connected with it is brought into action to support their protest; so it is extremely rare for an industry that has once been granted the protection of a tariff ever to consent to come from its shelter and face the bleak winds of foreign competition.

RECENT TARIFF POLICY

The period since the First World War has seen a remarkable break with tradition in our trade policy. During the nineteenth century restrictions on imports were removed bit by bit – the climax coming in 1846 with the repeal of the Corn Laws until by 1860 they had completely gone, and foreign goods competed in British markets on equal terms with the home-produced article. This freedom lasted until 1914, when it was first interrupted by the circumstances of war, and, a year later, by the deliberate imposition of import duties. Since then more and more restrictions have been introduced. The early tariffs afford a good illustration of the point made

above that tariffs once imposed, for whatever reason, tend to stick; for the first duties – the McKenna Duties of 1915 – had the object primarily of cutting down bulky and inessential imports, such as motor-cars from U.S.A., in order to save dollars and cargo space, and not that of giving a free field to the home producer. But they remained on after the war because, by that time, the motor-car industry had got too used to them to be willing to do without them; and they continued (with one short break) until they were merged in the general tariff in 1938.

Apart from the McKenna Duties tariff history since 1918 shows three separate trends.

1. The desire to protect certain industries whose products might be essential in time of war. The Safeguarding of Industries Acts 1921–6 were designed to encourage home production of those things which, while unimportant in themselves, might be regarded as key products to other more important types of manufacture. It is easy enough to define a category of this sort in general terms, but much more difficult to determine what goods fall within its boundaries. Almost everything is a key to something else and, in fact, many thousands of things that did not seem essential requisites of our civilization, such as dolls' eyes and fabric gloves, got themselves on to the list.

2. The desire to protect the gold standard by cutting down imports as a whole so as to prevent a drain on gold resources. The temporary legislation passed for this purpose gave way to a more permanent scheme, and by the Import Duties Act of 1932 a full system of protection was introduced. The Act imposed a general tariff of 10% on all imports, but provided, on the one hand, for a Free List of certain types of goods and, on the other, allowed additional duties to be fixed on the recommendation of the Import Duties Advisory Committee, a body appointed by the Treasury to advise the Government. The general tendency of the thirties was for tariffs to rise; the

rates on manufactured goods were approximately 20% *ad valorem*, but 33⅓% or even higher on McKenna and key industry goods.

3. The desire to bind the Empire together by economic ties as well as those of affection and sentiment. As long as foreign goods were admitted freely into Great Britain, no privilege could be granted to the Empire, but as soon as tariffs were established it was possible to do this by remitting the tariff or reducing it in amount. This policy began as early as 1919, but its scope was limited until the introduction of the general tariff, and by the Ottawa Agreement Act it was agreed that all Empire products should enjoy preferential treatment in British markets, varying in amount from 10% reduction on the ordinary rate to as much as 33⅓% or, in a few industries, even more. The effect of this policy has been to bring about a remarkable change in the direction of our external trade. In 1931 U.K. bought less than a quarter (23·2%) of her total imports from Empire countries; by 1938 this had grown to 40%. And, similarly, during the same period, the percentage of British exports going to the Empire rose from 32·6% to 50% of the total exports.

It is probable that all these trends will continue to play their part in determining the tariff policy of the future. The melancholy history of the twentieth century is hardly likely to persuade people that the security factor can be ignored, and there is little doubt that we shall try to become less and less dependent on overseas sources of supply of essential foodstuffs. But the import-export disequilibrium is an added inducement to the pursuit of this policy. We may find it necessary to cut down our imports and produce more at home simply in order to restrict the demands on our supply of dollars and other scarce currencies.

There is another new factor that will have an influence in the future – the desire to maintain stability in employment. As is pointed out in the last chapter (Ups and Downs in Pro-

duction) the Government has accepted the responsibility for preventing mass unemployment, and it may be compelled, as part of this responsibility, at times to exclude goods whose import might prevent the maintenance of stability. If we had a happier record of international action it might be possible to hope for a concerted policy on these lines, and we can only hope that this may develop some time in the future.

Import duties are by no means the only way by which a Government can control the volume and direction of international trade, and, indeed, in the inter-war years they came to be one of the less important methods. Three other ways will be outlined here.

CONTROL OF FOREIGN EXCHANGE

1. During the thirties Germany, for example, strictly controlled the market for foreign currencies, not only fixing the value of a foreign currency in relation to German marks as a whole, but selling the same currency at quite different prices according to the purpose for which it was wanted by the purchaser. This is probably the most complete and most effective way of restricting imports to what the Government wants them to be.

There has been a similar control on British external trade since the war, though here the Government does not make a price discrimination between the purposes for which the currency is wanted; instead, it discriminates by controlling the total amount that may be spent. If you want to go to America as a tourist, for instance, you are allowed to buy very few dollars; if you go on business, or to represent a learned society, or as a student, or for similar reasons, you are given permission to spend much more.

SUBSIDIES

2. It was argued above that it is possible to justify the protection of an infant industry which shows signs of growing to independent maturity, but that a tariff, once put on, is likely

to remain for ever. Another way of protecting a young industry which does not suffer so greatly from this disadvantage is by subsidizing it. In this case, foreign imports continue to come in freely and consumers can buy them if they wish, but the home producer receives a grant from the Government, out of national funds, to enable him to sell below his cost of production without loss to himself. The advantage of this system, it is argued, is that the cost of protection is clearly seen in the national accounts and, as none of us is eager to pay more in taxation than necessary, there is likely to be continuous examination of the value we get for our money.

The most important example of this kind of protection before the war was the sugar subsidy, which was given to encourage the development of a British sugar beet industry. The object was primarily political; i.e. to ensure an adequate supply of an essential foodstuff in case of war (and, in fact, the greater part of the domestic sugar ration during the recent war was drawn from home production), but it was also believed that the industry would soon be self-supporting and that a grant lasting for ten years would give it sufficient time to establish itself. This hope was never realized and, when the subsidy was due to end, new arrangements had to be made to keep the industry's nose above water. Though the amount of the subsidy was calculated on a new basis, it averaged pretty much the same as it had been in the earlier years, and the general effect was that it cost the Government about 12/6 a cwt. to produce home-grown sugar, whereas imported sugar cost only 5/– per cwt.

The same method was employed to encourage a larger production of wheat and other kinds of agricultural produce, though no other subsidy was proportionately as heavy as that given to sugar. During and since the war we have gone in for subsidies in a very big way. The aim has been to guarantee to farmers prices which are high enough to induce them to increase home food supplies very greatly, whilst at

the same time keeping down the cost of living of the consumer. They have certainly been very successful in achieving this dual aim; the production of home-grown food is so much larger than it was before the war that the pressure on our scarce dollar resources has been appreciably lessened and the cost to the consumer of all basic foods has been kept well within the purchasing capacity of even the poorer sections of the community. But the cost has grown yearly and in the year ending 1949 was close on £500 millions.

THE ALLOCATION OF IMPORT QUOTAS

3. The third method of controlling the volume of imports, by the allocation of quotas, has been used a good deal by this country since the beginning of full-scale protection in 1932, particularly with regard to agricultural products. The Board of Trade fixed the total amounts of different kinds of foodstuffs that could be imported and a share of this was allocated to each of the countries that normally sold its produce to us. The aim, of course, was the same as that of the subsidy – to encourage a large home production by ensuring it a market.

This question of the protection of agriculture is one of the most important and most controversial issues of the near future. What size of agricultural industry ought we to aim at? Should we return to our earlier policy of buying our food wherever we can get it most cheaply, a policy which has obvious advantages for an urban community, but which may put a strain on the supply of dollars and which leaves us in a vulnerable position in time of war? Or should we protect the industry by heavy import duties, or by guaranteed prices and subsidies, and so have a lower standard of living during peace time, but greater security in time of war? And if we decide on the latter course, how should we make sure that farmers use the land in the most efficient and economical way, so that the burden on the community of maintaining

a large agricultural industry is not too heavy?

The action taken by one country to protect its own producers is naturally disliked by other countries, whose markets are narrowed, and there have been, therefore, many international conferences in the hope of reaching agreement for the simultaneous reduction of trade barriers. It must be admitted that they have not yet been any more successful than similar international efforts at general disarmament, and mostly for the same reason, that each country is only too ready to behold the mote that is in another's eye but not so willing to consider the beam that is in its own. Since the war a new attempt has been made with the setting up of the International Trade Organization, whose job it is to govern the conduct of its members in world trade. The main purpose is to eliminate political and exchange considerations from international trade and leave its direction to be determined by purely economic factors, such as price and quality. It is proposed that members should enter into arrangements for the reduction of tariffs and that one country should not give preferential treatment to one source of supply of its imports to the detriment of others. But it is recognized that these aims are unlikely to be achieved in the immediate future.

Meanwhile, however, the Contracting Parties to the General Agreement on Trade and Tariffs (G.A.T.T.) have held a number of conferences at which strenuous tariff bargaining has been carried on, with the result that a number of tariff rates have been reduced and undertakings have been made that the existing level of certain tariffs shall not be raised. These agreements have not been as important in practice as one might have expected for many of the reductions of rate relate to goods whose import, in any case, is of slight value; but more important, because international trade has been so restricted by reason of currency difficulties that the existence of tariffs has not been a principal factor in determining the direction of trade.

CHAPTER 9

INCOMES AND HOW WE GET THEM

A casual glance around is enough to show us that we don't all enjoy an equal share of what is produced – that there are rich and poor. It is certainly true that the difference is nothing like as great as it was a generation ago, but it still exists. Some people live in large, well-furnished houses with plenty of good things to eat and to wear, whilst others have a poverty-stricken existence, counting every penny, in small, inconvenient rooms or crowded, insanitary cottages; and between these extremes there are countless grades of more or less. What settles the amount of income we get? How far is it true that there is now a smaller gulf between rich and poor than there used to be? Is this likely to continue until we all have the same amount?

First let us get a picture of the different ranges of income and see how many people fall within each of them. Nowadays we can get a fairly good idea of this because, since early in the war, the Chancellor of the Exchequer has adopted the excellent practice of publishing an annual estimate of the national income before announcing his budget proposals. The 1951 tables show the following distribution of incomes:

Range of Income	Number of Incomes, '000s	Total Income, £ millions
Under £250	—	2,209
£250–499	10,310	3,546
£500–999	2,443	1,614
£1,000–1,999	545	728
£2,000–9,999	219	760
£10,000 and over	11	190

You will notice that there is no estimate of the number of incomes falling within the lowest group, because the records are compiled mostly from income tax and P.A.Y.E. returns,

and, of course, a great many of the smallest incomes are below the level at which income tax becomes payable. The allowances for the owner of the income and his dependants are enough to bring a family man of £500 a year or so out of the scope of income tax. Moreover, many people have more than one source of income and, except in the surtax field, there is no regular source of information available about the total of these people's incomes. In order to get an estimate of these totals, the Commissioners of Inland Revenue took a special Income Census in respect of the year 1949–50. To have included the whole population in such a census would have been too formidable a task so a 10% sample of all taxpayers was selected. Whilst the resultant figures, therefore, cannot be guaranteed to give an accurate picture of the distribution of personal incomes, they can be said to provide a very fair outline of the general pattern of distribution. These figures show that of the 20,050,000 personal incomes in the country, just under 80% were under £500 a year and between them they received 53½% of the total of all income; whilst 1% with over £2,000 a year each took 11·7% of the total and the middle group, those with between £500 and £2,000, comprising 20% received the remainder, that is, 34·8%.

But this is not the whole story. A good deal of what we consume – and it is an ever-growing share of the total – comes to us by virtue of our citizenship and not because of the size of our personal incomes. In some cases this takes the form of a definite sum of money which is handed over by the State to the members of certain defined categories of people, e.g. those in the pensionable age-groups, or below school-leaving age or out of work or whatever it may be; in others, we receive certain amenities, e.g. a free education, or food at less than cost price, or free medical attention, or other benefits which we should have had to pay for out of our income if they had not been provided by the State. It is ob-

vious that we cannot all benefit equally from these 'civic rights' because we cannot, for example, draw a retirement pension unless we happen to be of the suitable age, and so this 'social income' modifies to some extent the distribution of the national income as shown in the table above.

Then, again, all these benefits, as well as all the rest of the work done by the State – national defence, roads, and so on – must be paid for, and part of our income is taken from us by taxation to meet the bill. Since the war, the share taken by the State for these and similar purposes has grown so greatly that it is now as much as 40% of the total national income. Here again, the burden is not distributed equally on all incomes, i.e. we don't all pay 40% of our income to the tax collector; some pay much more, some very much less, and this too, therefore, alters the relative amounts we have left to spend on what we choose for ourselves. So that before we can get a true picture of the distribution of income among us all we have to take account of all these different factors – (1) the money we receive as our personal income, (2) incomes from property, (3) the extras we get as our part of 'civic rights', and (4) the amount we pay in taxes – and only then can we really see how far some people are better off than others.

We get our personal incomes from two sources – payment for work done and payment for the use of property – and each of these must be looked at separately.

1. INCOMES FROM WORK

The vast majority of us work for our living and the size of our incomes depends on what we get paid for our work. If we examine the earnings of people in any one occupation we find that they vary considerably. Miners, for example, don't all take home the same amount each week; it depends on how quick they are (and so what output they produce), whether they are regular in attendance or take a shift or two off, whether they work overtime, their luck in being on an easy or difficult part of the coal face, and so on. There are

similar variations in other occupations. All this is fairly obvious. But these differences in earnings between persons in the same occupation are slight in comparison with the divergence in earnings between different occupations. A very popular barrister might earn as much as £50,000 a year; a skilled manual worker would probably not get more than £500; a general practitioner expects to make between £2,500 and £3,000; an agricultural labourer gets about £5 a week; and it is these big differences between earnings in different walks of life which we must first consider.

We have seen in the first chapters that prices are supposed to show where goods are wanted, so that a high price usually calls forth an increased supply. Why then don't the agricultural labourers become popular barristers and, by increasing the supply of them, bring down their price to something nearer that of the labourers? The answer is, of course, that although we are all legally free to enter any occupation we choose, in practice we are prevented by circumstances. A barrister requires a very long education and training before he can begin to practise, and few parents can afford either the expense of the education or the cost of maintaining their son for so long a time. Moreover, to be a successful barrister demands certain qualities, both of intellect and of personal temperament, which are not very widespread; so that it is not enough to be rich, you must be rich and also have these qualities. As a consequence, only a comparatively few people can offer themselves for the higher ranks of legal work, and therefore their price is high. The same thing applies throughout. Wherever entry to an occupation demands either special types of capacity or long periods of preparation there is, relatively speaking, a scarcity of entrants, with the usual result of scarcity – a higher price. The skilled manual worker gets more than the unskilled because the time needed for learning his job keeps down the numbers who could possibly go into it. If the demand for that kind of skill declines (perhaps because of changes in industrial methods or because of

changes in the buying habits of the public) then he is no longer relatively so scarce and his wages begin to go down. If, on the other hand, there is a sudden increase in the demand, wages go up until a sufficiently large number of new recruits can be attracted into the industry. During the post-war years, for example, the earnings of coal miners have almost trebled, while average adult male earnings have only doubled.

In some cases the skill required may be of the sort that is acquired 'painlessly' by many people in their ordinary lives, so that anybody who has lived that sort of life can easily do the work and offer himself for that occupation. This has been one of the factors that has, in the past, kept down the earnings of both agricultural labourers and domestic servants – both skilled workers but neither demanding any specific training. During the war the submarine danger and after the war the shortage of dollars have combined to force us to concentrate more on home-produced food, with a corollary of a very big sudden increase in the demand for agricultural labourers and a rapid rise in wage rates to induce more people to enter the industry. The same thing is true of domestic service, as a result of the rapid expansion in well-paid alternative employment for women.

Sometimes the difficulty of entering a particular occupation is due to social factors rather than the need for special training. There is still a good deal of snobbishness about our society, and in many jobs there is a tendency to choose from amongst those who have a certain manner of speech or who dress in a way that is considered desirable by those who make the appointments. If such persons are limited in number, the pay is proportionately high.

When we compare the earnings of different occupations we have to be careful to take everything into account. A business man may make a good bargain which brings him in £1,000 profit; but we cannot therefore conclude that his income is £365,000 a year, because such a deal is not a daily

event; and similarly the hourly earnings of a manual wage-earner are not a good guide to his income until we know how many times a year he is likely to earn that amount. Even this is not enough. Some jobs are regular, others are not. A civil servant is very unlikely to be involuntarily unemployed, whereas shipbuilding has had enormous changes in its volume of employment. If both kinds of work carried the same rates of pay the former would really be better paid, because the shipyard worker must reckon on some periods without earning and must make what he does earn spread out to cover the slack times. In some jobs again there is more wear and tear, and the workers cannot expect to continue earning at the full rate all their working lives; for example, the footballer knows that his professional life is a good deal shorter than that of the cricketer, and a man on heavy work in an iron foundry will have to give up his job at an age when the skilled carpenter feels that he is reaching his prime. Even if the wear and tear on the worker are not severe, there may be a risk that the occupation itself will decline and so cut short the working life of those who belong to it. Nowadays when the tempo of technical change has been so speeded up, this is a serious offset to all manual earnings, for, on the whole, the rate of obsolescence is greater among manual workers than among clerical, technical, or administrative ones.

In some occupations holidays are paid for; in others they are not. Under the National Health Service the specialist has the right to a certain amount of remuneration when he is on holiday, but the general practitioner has to pay another doctor to look after his patients when he is sick or on holiday. There are similar expenses and perquisites attached to other jobs. The railway porter, the waiter and the taxi driver can expect a very considerable addition to their recognized earnings through the tips they receive; the shop assistant, who gives a similar form of personal service, cannot, and this is only slightly compensated by the fact that he usually has the

privilege of buying goods from the store at less than the ordinary marked prices. The miner and the agricultural labourer often get a cottage at a low rent and the miner, also, usually receives an allocation of coal at no cost or a very slight one; domestic servants and hotel employees generally receive free board and lodging in addition to their money wages. In some trades the worker provides some of his own tools, e.g. the plumber. The bank clerk and the schoolmaster must dress in the way that is considered suitable to the profession; they cannot save their 'good' clothes for the weekend as can the docker or the engineer. There is no need to elaborate this further to make clear the point that a great deal more than the hourly or weekly wage has to be taken into consideration when comparing the remuneration of different occupations.

METHODS OF SETTLING RATES OF PAY

Trade Union Negotiation

If a shopkeeper makes a bigger income than a competitor we can assume that it is because he is more skilled in stocking the things the customers like, that he serves them more efficiently or makes his shop more attractive and convenient, and so on. On the other hand, if he fails to keep his customers, his profits will begin to decline until finally he may have to decide to give up and look for some other way of earning a living. The point is, that we should not expect to find all shopkeepers making the same amount each year nor be surprised at very great differences between them. But such a situation is unusual amongst employed people nowadays; and the vast majority of us earn our living at work for which a definite rate of pay has been contracted. In fact, 96% of all occupied persons work for wages or salaries. (Is there any difference between these two? No. The difference is mainly one of custom or, perhaps, just snobbishness. Salaries used to be reckoned on a yearly basis and wages on

an hourly or weekly or piece rate; but even this distinction was not universal, for, for example, the wages of domestic servants used to be fixed at so much a year, in addition to board and lodging. No. It must be admitted that the line of demarcation is more social than anything else.) Most, though not all, of this 96% receive an amount which is based on an agreed rate and, even where it is not formally agreed, there is usually a standard method of calculation which is customary in the occupation. Most of these agreed rates are the result of collective bargaining carried on between representatives of the people who are to receive the pay, on the one hand, and of those who employ them on the other.

Before this method of settling rates of remuneration grew up, the worker was often in an extremely disadvantageous position, for not only could the employer afford to wait longer to get what he wanted, but it was generally much less important to him to come to terms with an additional employee than it was to the man who must get a job or starve. A business which usually employs 500 or 1,000 men does not come to a standstill if one man is unwilling to work on the terms offered, but the worker loses his whole income if he does not manage to get employment. Except in the rare circumstances of an acute labour shortage, the employer could easily play on a man's fears of being undercut by somebody else who, because he had been out of work longer, was more desperate to land any sort of job, whatever the pay. But there was also a more subtle psychological disadvantage under which the worker laboured – that of recognized and accepted social distinctions. The employer is used to giving orders to, and having them obeyed by, just such a type of man as the one seeking a job, and he is accustomed to certain forms of respect in the manner in which workmen address him; it is difficult both for the employer and worker to differentiate between their reciprocal attitudes when one is the master of the other and their relationship before the bargain is struck

when they are merely two citizens discussing the terms of their contract. The employer has a 'These are my terms, my man, take them or leave them' attitude, and the worker is inclined to assume that this is natural.

Trade unionism gets over these inequalities by eliminating (or at least reducing) the competition between man and man for a job. Whilst no one individual is of supreme importance to the firm, the whole body of labour certainly is, and the employer, aware of his mounting overhead expenses, is as anxious to come to terms as the worker when the whole of his staff is involved. Moreover, as the size of the unions has grown and the paid official, representing often hundreds of thousands of workmen, has taken charge of the negotiations, the psychological disadvantage has become less serious.

A trade union is a voluntary association, and its power to protect its members depends to a large extent on its ability to get a monopoly of the possible recruits for the job. This is not an easy task, and the incidence of trade unionism is, therefore, extremely patchy; in some occupations the organization is almost complete, in others it exists more as a hope than a fact. There are now (1952) nearly 9½ million organized workers, of whom more than 84% are to be found in only 48 of the 753 unions. Coal mining, railways, textiles, building and transport, and the engineering and metal industries are the most highly organized occupations, while agriculture, retail distribution and many of the new consumption industries are to be found at the other end of the scale.

This is not a matter of chance. The building of a strong trade union is a difficult and arduous business, and it is unlikely to be successful unless the circumstances are favourable. It takes vision and self-sacrifice on the part of the founders and early supporters to develop a strong organization, because it is rare that anything positive can be achieved for a considerable time. The majority of workers, who would be quite ready to support a going concern which can offer

obvious protection in their working lives are not so ready to give time and money to establish an organization which cannot hope to make much difference to pay and conditions for some years. It was not until permanent wage-earning began to be accepted by large numbers of workpeople as the customary way of making a livelihood that trade unionism really got a chance to develop at all, and it has still not grown to any extent amongst those sections of the population who can expect that their present occupation is likely to be temporary. The largest group of such workers is, of course, composed of women, whose paid employment is usually an interlude between leaving school and starting on their life-work of looking after a husband and children; and wherever there is an outstanding proportion of women working in an industry, trade union organization is inclined to be weak. This is not true of those industries from which women were excluded until recently and where unionism is a well established tradition; in such circumstances women generally do what is expected of them, that is, they loyally join the union when they enter the trade, pay their dues and keep the rules. But is is unusual for them to take the initiative and start an organization if one is not already in being.

But the presence of large numbers of women workers does not explain the weakness of organization in such an industry as agriculture, in which men are by far more numerous, and here the cause must be sought rather in the dispersed character of the work. Men work in twos and threes on farms which are often miles from each other. There is no meeting place ready to hand, and to add a long walk to a tiring day's work, is more than most ordinary people can bring themselves to. It is doubtful if trade unionism would ever have grown so strong had it not been that most work is done in factories where hundreds of men with similar interests are inevitably thrown together, over periods of time which are long enough for them to become a coherent group conscious

of their common interests. Wherever this factor is missing, organization is weak, if it exists at all – this is true of retail distribution, of clerical work, of domestic service and of many branches of road haulage as well as of agriculture.

The largest unions of to-day have mostly developed from those which were founded by highly skilled workers, and it is still much more difficult to organize those whose work needs neither specific training nor accumulated experience, because in such occupations there is no well-defined constituency from which the membership can be recruited. Skilled work, as a whole, is on the decline, and nowadays there is usually not more than a comparatively small nucleus of skilled men in any trade; but where the change-over from skilled to less skilled work has gone on continuously over a century, the tradition of organization has become strongly entrenched and most workers join the union as a matter of course. In the newer industries – particularly the consumption industries – which began on mass production lines and in areas which had not previously been industrialized, the majority of workers were semi-skilled from the start and trade unionism is consequently weak.

More disputes take place between workers and employers on the subject of wage rates than on all other matters together, and this is not surprising, because the two sides look at wages from quite different points of view. The worker sees his wage as the main determinant of his standard of living. He knows that his whole life, and that of his family, is conditioned by the size of the pay packet, and he is naturally concerned to see that he gets enough to provide for the needs of those dependent on him. But to the employer the wage bill is one of the costs of producing his goods, and unless he can keep this as a whole below the price that the public are willing to pay for his goods, he will soon be out of business. The worker, therefore, relates the wage to what it will buy for him and his family, and the employer relates it to what

the worker produces in return for it. Unfortunately there is no reason why these two relationships should be the same. A man's family doesn't require any less food for healthy existence even if he does not produce so large an output or if its value in the market decreases; yet an employer who based his workers' wages on their needs, rather than on the value of their work, would soon find himself in Queer Street. No trade union, however powerfully organized, can force employers to go on paying higher wages than their workers are worth to them; the employer always has the choice of refusing to employ, either by going out of business completely or by cutting down the scale of his work and employing a smaller number of men, or by finding new methods of producing the goods that require fewer workers. In fact, the power of the trade union to maintain the selling price of its members depends, like that of any other monopoly, on the elasticity of the demand for the product, and as we have seen in Chapter 2 this, in its turn, depends primarily on the extent to which it is possible for the purchaser to find substitutes that he is willing to accept. If a higher wage means that workers work harder or better than they did before, the increase, of course, pays for itself, by the larger output it has brought into being. Or if the employer is induced to reorganize his methods and eliminate waste, in order to meet the extra cost, again there is no difficulty. And both these consequences may be expected to result, wherever the wages have been kept unduly low and have led both to malnutrition of the worker and slackness on the part of the management. But there is a limit to these developments; a point is reached at which higher wages, valuable as they may be to the improved standard of living of the worker, cease to have any marked effect on his efficiency as a worker, and at which all the slack of poor management has been taken up. In such circumstances an increase in wage leads to a reduced demand for that kind of worker, so that those that retain their

employment get the higher rate of pay, but a smaller number of workers keep their jobs.

But this is not the only effect. Industrial techniques are continually changing as new ideas are tried out, and the higher the cost of producing by one method, the greater the inducement the employer has to experiment with alternatives. Let us take a very simple illustration. Suppose that the errand boys of a certain district agree to organize to push up their wages, so that delivery of the groceries by a boy on a bicycle becomes a more expensive item in a shop's outgoings; it may then become worth while for the shopkeeper to give up his three errand boys and bicycles and employ instead one man with a small motor van. This substitution of methods is continually taking place, and, in fact, the constant effort on the part of workers to improve their rates of pay has been one of the most potent forces making for technical progress. Most people are as lazy in mind as they dare to be and go on in the same old rut if nothing happens to force them out of it. A good deal of inventive genius has been given its chance, because of the need to economize on more expensive types of labour, and, often enough, the improvements are enough to compensate for the higher cost of labour and enable the employer to employ as many as before at the higher rate. But this is not always so; and the trade union negotiator is faced with the need to make up his mind whether it is better to push the rates up further and risk some of his members being forced out of work, or to agree to a lower wage and have a larger percentage in employment.

The introduction of unemployment insurance has had a marked influence in this respect. When unemployment meant starvation or the workhouse, the trade union secretary realized that it was impolitic to pursue a course of action which would face his unemployed members with the alternatives of remaining out of work or accepting jobs at blackleg rates of pay. And a prolonged depression in a trade inevi-

tably showed itself in an agreement to lower wages. But the trade union has a very strong hold on the loyalty of its members and there are few who would dream of undercutting, so long as the unemployment insurance benefit provides, at least, sufficient to let one get along. The effect of this was seen during the chronic depression of the inter-war years, when although there were at times as many as 23% of the insured population out of work, wage rates fell hardly at all and when, indeed, if we take into account the fall in the price of foods during this period, the contrary was the case – real wages rose quite considerably. Here we have an entirely new phenomenon, and one that has, as we shall see shortly, a very important influence on the occupational distribution of the population. As a consequence, on the one hand, of wage rates fixed by collective bargaining, and, on the other, of the provision of a 'cushion' of social security payments to break the fall in the standard of living of those who are not earning a livelihood by their own work, there has come to be a very great element of rigidity in wages. Once rates have risen, it is extraordinarily difficult to bring them down, whatever the level of prosperity in the industry and whatever the state of employment.

The effects of an increased cost of labour differ, naturally, in different industries; it depends partly on the proportion of the total cost that is accounted for by wages and, partly, on the extent to which increased costs of production can be shoved off on to other shoulders. One would expect a different reaction to increased wages in coalmining, for example, where, according to Colin Clark in 1930, the wage bill represented 62·4% of the price of coal, from a similar movement in wages in the food, drink and tobacco trades where wages represented only 7·9% of the total cost. During recent years the greater part of the burden of the higher wages paid to agricultural workers has fallen on the shoulders of the taxpayer, for it is only because of the heavy subsidy paid to

farmers by the Chancellor of the Exchequer that these wages have been economically possible while food prices have been kept so low to the consumer. Wherever wages represent a fairly small proportion of cost or wherever the effect of increased labour charges can be concealed by subsidies or other means, the degree of inflexibility of wage rates is enhanced, but it is now an important characteristic of all wage rates, even where these particular factors are not present.

STATUTORY WAGE-FIXING MACHINERY

Trade unions now cover close on nine million workers, but a good deal of this development is of fairly recent growth. When war broke out there were only six million organized workers, and even this showed a remarkable recovery from the four and a half millions of the depth of the depression in 1932. What about those who are not in Trade Unions? Who fixes their rates of pay? Until fairly recently it would have been true to say 'In most cases, nobody.' The employer was the top dog and the worker had to take what he could get. But this has changed, and there has grown up a system of Wages Boards and Wages Councils set up by the State to provide a similar machinery for settling wages to that which highly organized workers and employers have evolved unaided.

Wages Councils, though not under that name, have now a long history. They were first established as early as 1909, when four Trade Boards were set up in four of the worst paid and most unorganized industries, as an experiment in coping with the problem of low-paid labour. At that time, when Government control of economic activities was in its infancy, the mere idea of regulating wage rates was looked upon as almost revolutionary, and it was only the impossibility of discovering any other way of dealing with the scandal of the 'sweated industries' that forced the State to decide, very reluctantly, to try this method. But the form of

control then devised proved so workable that it has remained the pattern ever since. The scope and, to some extent, the powers of Wage Councils have changed, but the *form* has hardly altered throughout the whole history of wage regulation. The principle on which it is based is that of reproducing as nearly as possible the voluntary arrangement spontaneously developed by organized industries. The differences are those which derive from the more formal definition and procedure which are inevitable in something which is established by law, instead of by voluntary agreement.

Each Wages Council or Board (the name varies according to whether it is set up under the authority of the Wages Councils Act or of the Catering Wages Act) is composed of three groups of people all nominated by the Minister of Labour and National Service – two groups, equal in number, chosen to represent employers and workers of every section of the industry, and three independent persons, one of whom acts as Chairman. In this way every interested group can have its say in determining the rates of pay and, although the independent members have the casting vote should the need arise, it is much more usual for the rates to be reached by agreement, without any necessity for them to throw their weight on one side or the other. They are there to help guide those who, by definition, are inexperienced in joint negotiation and to prevent a complete deadlock, but the fewer occasions on which they make use of the casting vote, the more successful their work.

There is another and very important difference between the work of Wages Councils and that of Trade Unions. The agreements made by trade unions and employers' associations have no legal force, though, as a matter of practice, it is rare for such an agreement to be broken; but those made by a Wages Council are enforceable by law and persons may be prosecuted for not complying with them. The reason for this difference is easy to understand. In industries with a

long tradition of negotiation, everybody realizes the futility of making agreements unless both sides can rely upon them, and, at the same time, the members of the organizations on both sides can act, in a way, as their own inspectorate, reporting breaches of observance to their officials. Where this experience of negotiation is lacking, and few employers or workers are members of representative associations, some substitute for this informal method of making and maintaining agreements has to be instituted. But though the bodies set up under the Wages Councils Act and the Catering Wages Act are nominated by authority and their agreements are given legal sanction, with an inspectorate to enforce them, the basic principles of the settlements are exactly the same as in industries that can do without this legal scaffolding. In fact, what seems at first sight to be machinery for fixing wages by law turns out, on closer inspection, to be the establishment of statutory provision for collective bargaining.

A NATIONAL WAGES POLICY

The success of these methods of establishing legally enforceable wage rates in the unorganized industries is a significant witness to the strength of the conviction that wages are, and must be, a matter of agreement between those primarily concerned, and not something to be imposed by an external authority. In recent years this belief has been challenged by the demand that the Government should formulate and carry out a National Wages Policy and not leave something which has such important indirect effects on the national welfare to be settled by the 'higgling of the market'. Much of the strength of this demand derives from a realization of the serious difficulties that confront us, as a community, in trying to persuade men and women to go into the industries that are of prime importance to the economic well-being of the nation, when the whole trend of wage movements attracts them into occupations which are very much less essential.

In the chapter on Imports and Exports it was argued that the economic health of the country is now bound up with a great and rapid increase in exports. In order to achieve this aim, it is necessary to expand the size of our principal export industries and produce a large volume of goods which can compete on favourable price and quality terms in the world markets. Unhappily our chief export industries suffered prolonged depression during the inter-war years, and immense efforts were made, both by the Government and by voluntary bodies, to persuade redundant workers in them to move away and seek employment in other expanding occupations. For twenty years workers attached to these industries were badgered, prodded and cajoled to try new pastures and blamed for their stubborn lack of initiative when they insisted on 'staying put'. It is always difficult to persuade people to move from their homes and their familiar kind of work, but at that time, when there was often considerable unemployment in many industries besides the chronically depressed ones, there seemed little inducement to jump from the frying-pan into the fire. The war brought a great change. There was not only unbounded opportunity to get better work, but there was also a change in the social atmosphere. Practically everybody was on the move and a change of job and of home locality was part of the common experience; at the same time the swelling war industries gave unlimited chances of finding work at high rates of pay, so that thousands of men and women got firmly established in new occupations. Naturally enough, miners and textile workers, who have found congenial work in other industries and who are earning much more than they did in their pre-war occupations, see no reason why they should now return to the jobs from which people tried to dislodge them by twenty years of persistent effort.

Another thing. The chief export industries were established when the convenient layout of factory buildings and

the provision of workers' amenities were much less considered than they are to-day; and employers who were barely able to keep their heads above water were neither able nor willing to spend a great deal of capital on modernizing their buildings. During the war the Government insisted on a high standard of staff welfare in the munitions factories, and workers who have grown accustomed to the well-planned workshops and generous welfare amenities of the newer industries are very unwilling to return to coalmining and textiles and similar industries which are only just beginning to bring themselves into line. Wages in these occupations would have to be very much higher than in alternative avenues of employment to attract the increased number of workers required by their expansion; and this is where the problem arises. For the export industries to expand, more is needed than increased production; we have also to persuade people in other countries to buy what we offer them, and they are unwilling to do so unless our prices, quality for quality, compare favourably with those of other sources of supply. In the immediate post-war period, the acute world shortage of goods has been so great that buyers have not been so sticky about prices, and wages in the export trades have been able to rise more proportionately than in other industries; but there is a limit. Every year more devastated countries swing back into production and more arrears of demand are made up, so that the 'sellers' market' disappears and buyers begin once again to call the tune. Now, on the other hand, in this country we have more consumers' purchasing power than ever before; there is practically no unemployment and most people take home a fatter pay-packet than they used to. But many of the things on which they would like to spend their extra income are still limited enough to be rationed or price-controlled; and this results in keen competition for the goods which *are* available, with the obvious result of soaring prices. And so scarce workers find they can earn much more by

working in these industries which, by definition, are 'less essential', than by moving into the export trades whose power to raise wages must be kept in check by world selling prices.

During the war we overcame a similar difficulty by instituting a comprehensive system of labour controls. Freedom of choice of occupation was surrendered and the whole of the nation's labour resources were in the control of the State. But such a limitation of individual liberty is generally condemned in peace-time, and it is necessary, therefore, to find other ways of attracting people into the jobs where they are most needed, and of squeezing them out of occupations which, however useful in themselves, cannot be said to rank high in the list of national priorities.

It is for this reason that many people have come to believe that the traditional method of settling wages by joint negotiation is out of date and that the Government should take a hand in order to ensure that earnings in different occupations maintain such a relationship to one another that the essential industries are able to draw the share of the available man-power resources that they need in the national interest. It is true that this runs counter to a right that has been fought for, and jealously cherished, for a century and a half – that is, the right to establish contracts by free negotiation between the representatives of the parties concerned; but this in itself is not conclusive, for, after all, traditional rights must sometimes give way to national necessity. There is, however, a more serious problem, and that is the difficulty of finding an alternative method of fixing wages in such a way that people are got into the occupations where they are needed, without infringing individual liberties more than the community would be willing to tolerate. If we were a totalitarian country the Government could order people into the jobs where they wanted them – 'or else'; but in a democratic country this is not so easy, and a Government that wants to attract workers into different occupations has to do it rather more

subtly. But how, in practice, could the Government or anyone else assess the relative payments for different types of work which would attract and retain all the various grades of workers where they are wanted? The truth is that we still know very little about the drawing power of wages. Wages are, of course, a price, and changes in price always influence the readiness of both buyers to buy and sellers to sell. But if you recall what has already been said about the many factors to be taken into account in calculating earnings in different walks of life, it is easy to see that a comparison of prices paid for various jobs is not as straightforward as it seems. And there is another thing that is even more important than the difficulty of making fair comparisons between money earnings – one that we are only just beginning to realize – and that is, that wages play a much less dominant role than they used to in determining the relative attractiveness of different jobs. Nowadays, a whole host of other factors have also to be taken into account. Take, for example, the place of leisure in modern life. Thousands of workers have come to give a very high priority, indeed, to adequate leisure in their scales of values, and the kind of work that can be fitted into the ordinary fairly short working day and which leaves free the evenings and week-ends undoubtedly has a strong pull, even though its earnings may not be quite so high as those of an occupation which demands longer hours, or shifts that go on all round the clock. This is a fairly obvious factor and one whose importance, one might argue, could be monetarily assessed. But what about social prestige? Here is something that is playing an increasingly important part, but which it is extremely difficult to measure by money. One of the strongest trends of the present century has been the effort on the part of the wage-earning family to get its sons and daughters into clerical occupations. Earlier in the century, economic as well as social factors supported this ambition, for jobs in offices and shops usually offered a greater degree of

security and more opportunities for promotion than the majority of manual occupations. Even at that time these advantages were often illusory; a clerk, it was true, was not turned off as easily as a manual worker, but if he *did* lose his job he was often longer unemployed. But with the spread of free education on the one hand, and the routinization of clerical work on the other, there are now so many people capable of doing these jobs that the pay is often lower than that of the manual wage earner and the chances of promotion are only slightly greater. Yet this has not deterred the wage earner, to whom the white collar and black coat of the office worker represent a step upwards in the social scale; and the right to be called *Mr* Smith or *Miss* Jones seems well worth some small drop in earnings.

The same consideration, in the reverse direction, has affected recruitment into domestic service, which, from being the most important of all the paid occupations of women, has sunk to a very low place. Social prestige is not the whole story here, of course. It would be interesting to speculate how much of the fall in numbers has been due to the wish of young girls to work in larger groups in the factories, where they have a chance of making friends and of meeting their future husbands, and how far other matters have played a part. It is impossible to generalize about conditions in this type of employment, for the majority of women work in households employing only one or two persons which differ greatly from one another, but, on the whole, the standard of board and lodging and the amount of free time compare very favourably with those available in industrial work, and the pay, taking into account the value of food, lodging, etc., is decidedly higher than the average of women's industrial earnings. But there is no doubt that factory girls look down on the domestic employee as in a lower social grade, and, despite the higher earnings, the scarcity of recruits persists. It will be interesting to see how far this is overcome by the

effort of the National Institute of Houseworkers to raise the occupation to one of skilled status, carrying a recognized qualification.

There are many other factors which play a similarly incalculable part in the choice of jobs. Some people dislike the loneliness of country life and would take less money, if need be, to get work in the town, with its lights and shops and cinemas; others are ready to do the same for the pleasure of living in the fresh air or of having a big garden. Part of the pre-war exodus from the land was said to be due to the unwillingness of young women to marry agricultural labourers, because of the lack of decent housing accommodation, with running water and adequate plumbing; and probably the speeding up of the housing programme in the rural areas has done as much as, if not more than, the rise in wages to attract an increased number of workers. Sometimes it is not the *actual* conditions of an industry that act as a deterrent to recruitment, but the reputation that has lasted from the past, on the principle of 'give a dog a bad name'.

When we attempt to analyse the many things that play a part in the choice of jobs – often enough while the 'chooser' is quite unconscious that he is influenced by them – it becomes clear that we should be in great difficulty in measuring their money value in order to establish relative wage rates that would attract the 'right' number of people into each kind of work. In this positive sense a national wage policy seems impossible, unless we take the further step of conscripting the whole working population and pushing them about where we want them like a lot of robots.

EQUAL PAY FOR EQUAL WORK

Before leaving the discussion of Incomes from Work something must be said about the relationship of men's and women's wages, a subject which has been a matter of con-

troversy for a long time and which has once again been much in the limelight since the publication (in 1947) of the Report of the Royal Commission on Equal Pay. Put briefly, here is the problem. Over the greater part (though not the whole) of paid employment women are paid less than men for comparable work. Why is this so? Should it be altered? And, if so, how?

Note that I have said 'for comparable work' and not 'for the same work', for, except in certain professions (medicine and education, for example), it is unusual to find men and women doing identical work. They may be employed by the same firm, and even in the same room, but they are usually doing different processes. In addition, there are many types of employment which are exclusively male (such as the Stock Exchange, the Church of England and many industrial processes) and others which are exclusively female (such as children's nursing). But even in these, skill for skill, a man draws more pay than a woman.

Popular explanations of this situation do not stand up to examination. Most people, if asked to account for women's lower pay, would offer these explanations: (1) women are more bother and expense to the employer. More factory legislation apples to them than to men, and most employers feel it necessary to offer them a rather higher standard of welfare amenities; (2) women don't produce as much as men; and (3) (the most popular explanation of all) women don't need as much because they have only themselves to keep, whereas men must provide for their families. How far is popular opinion right in finding the explanation in a combination of these? Let us look at them one by one.

1. It is true that much legal regulation applies only to women and young persons, but this does not mean that women's conditions are always better than men's; as a matter of fact, organized male workers have managed to get a considerably higher standard of protection by Trade Union

negotiation than the law enforces for women. Moreover, the experience of the last half-century has proved conclusively that expenditure on good conditions is more of a capital investment than an out-of-pocket expense, and most good employers, consequently, provide as good 'amenities' for their male workers as for their female.

2. The second statement is frankly silly, as are most broad generalizations of this kind. The amount of work done depends partly on the type of work you are considering, and partly on the individual. In heavy physical work, which demands great muscular power or prolonged physical endurance, most men are capable of a much greater amount of work than most women (though there are, of course, some exceptionally strong women and some men below the average in strength); but in work which needs a quick deft touch it is usually the other way round; and in a great many jobs there is no sex differentiation at all. A woman teacher looks after just as large a class as a man teacher, and undertakes just as many, if not more, extra duties; a woman clerk can write as many letters as a man in a given time; a woman shop assistant can cope just as well with merchandise and customer. But even if it were possible to draw such a distinction when men and women are doing identical work, it would certainly not be possible to do so where, as is most usual, the processes are quite different from one another; here there is no basis of comparison. Even less could this account for the lower rates of pay in occupations where women exclusively are employed as compared with men's rates where only men are employed.

3. But it is, of course, the third statement to which the majority pin their faith – that women *need* less than men. There are here two questions involved: (a) is this true? Do women, in fact, need less than men? and (b) if it is true, is it the explanation of their lower rates of pay?

Nobody with knowledge of the facts would claim that men,

as individuals, need more than women, as individuals, for both have similar expenses for food, clothing, recreation and the upkeep of their homes (whether by a wife in the case of a man, or by a mother, sister, aunt or landlady in the case of the woman). Most women, perhaps, spend less on food but more on clothes; as a total of expenditure the differences are negligible, and cigarettes, cinema seats and such things are the same price for a woman as for a man. The big difference is in the cost of dependants, for man is normally the breadwinner of the family and woman is not. But to say that man is normally the breadwinner is not the same as to say that every man is actually supporting a family; and, in fact, the statistics show that this is not so. According to the evidence collected for the Royal Commission on Equal Pay, only just half of the married men under 65 who were covered by the contributory pension scheme (the most comprehensive of all the social insurance schemes) had any children at all under the age of 16. If we take the entire adult male population, without consideration of marital status, we find that the average number of children under 16 is 0·6, so that the total number of children dependent on the incomes of adult men is really very much smaller than we imagine it to be when we think of the 'average' family. The truth of the matter is that we generally ignore the time element in family responsibilities. Most men are responsible for children at some time in their lives, but they do not remain in this position permanently. If we take three children as the average family (a rather generous estimate) and assume, as is quite likely, that they are born within a period of 6 or 7 years, the complete period of dependency of the family is confined within a span of about 21 years. The heaviest burden falls on a man's income when all his children are growing up, but still at school, and it begins to lessen as the children go out into the world, until finally his earnings have to bear the upkeep of only himself and his wife. For half of the forty-five years in

which he can expect to earn his full adult wage he is likely to have no dependent children at all to support.

With regard to dependents other than children the position is not so clear, for the obligation to help with parents and invalid relatives is by no means confined to men. Unfortunately, we have not sufficient evidence to know accurately *where* the burden chiefly falls. On the whole, the women workers of the family are expected to shoulder a good deal of the cost of parents and younger brothers and sisters when their married brothers have young children of their own to care for, but later the older men, whose children have grown up, take their share of the responsibility. As far as the evidence goes, it seems to point to the fact that this burden falls slightly more heavily on women than on men, but it certainly doesn't compare with the cost of maintaining children. Children are not only completely dependent (with the exception of the help given by family allowances) but they remain so over a long period. This is not true of adult dependents, particularly now that so much social provision is available. Old parents often have a small income or pension, younger brothers and sisters grow up, invalids recover and so on. There is no doubt that the big distinction in the needs that have to be met out of the incomes of men and women arises from the cost of bringing up children.

What about the second question? If we agree that, despite wide individual differences, men as a sex have heavier responsibilities than women as a sex, can we accept this as the explanation of the differences in rates of pay? If so, how do we account for the fact that a doctor gets more than a navvy, though the first may be childless and the other have half a dozen children? Or that the navvy himself gets twice as much now as he did before the war? Or that employers make no enquiries about the number of children of their workers when calculating the contents of the pay packet? The answer is that needs play only a very small part in deter-

mining wages. As we have already seen, wages are fixed on an occupational basis. A wage is a price, and, like every other price, it mirrors the relative scarcity of the supply. Miners get more than they did between the wars, not because they now have larger families (in fact, the reverse is true), but because there is now a keen demand for increased supplies of coal and a dearth of men willing to enter the industry; their increased wage is the result of their increased scarcity.

Wages are not, of course, as starkly economic as this assumes. The parties to a wage agreement are not economic abstractions but ordinary men and women, who have grown up in a particular community, and whose minds have been shaped by the accepted ideas of 'right' and 'reasonable' which are current in their community. Most of us take for granted all the things we are used to and anything which is of long standing is likely to be looked upon as 'natural'. It is in this way that needs and recognized standards of living influence rates of pay and slow down wage movements that would result from purely economic influences.

As far as women's rates of pay are concerned, both the conventional and the economic factors have worked in the same direction and reinforced one another. On the whole, women's labour is relatively less scarce than men's, and this leads to lower pay, and, at the same time, the whole social pattern confirms the idea that women's needs are less than men's and that, therefore, women's pay *should* be lower.

Why are women generally less scarce than men? Chiefly because of the influence of the expectation of marriage on their paid employment *before* they marry. Almost all girls have to earn their living whilst they are single; compartaively few (before the war, only 1 in 9) do so after marriage. For them, paid work is an interlude which will come to an end when 'real' life begins; so there is little point in wasting time and money in learning a skilled trade or in preparing for more

responsible jobs. This fact keeps them out of all the skilled trades except those which are so closely related to the domestic arts that proficiency in them can be seen to have a direct value in married life. Nowadays, this does not exclude them from as large a field as it used to, for the proportion of highly skilled jobs is rapidly declining. But there is a large indeterminate area of minor managerial work which is the corollary of large-scale production with its thousands of semi-skilled operatives to be supervised and directed, and this has largely taken the place of the work requiring technical skill. There is rarely any prescribed preparation for such types of work, which demand certain developed personal qualities rather than any manipulative skill, but, though women possess these qualities as well as men, they are not often employed in them. Employers don't want to promote workers who are likely to leave just as they are beginning to be really useful, and, to be fair, the majority of women have not shown themselves anxious to take on responsibilities in a field that they hope soon to be quitting forever.

But even if we leave out of account the skilled and responsible jobs, the area of employment is still restricted for women. There are, of course, some kinds of work which need greater physical strength than most women possess, but mechanization is rapidly reducing the number of these. (For example, a woman cannot move heavy weights, but she can guide an electric trolley or work a lift as well as a man.) But when neither special strength nor special skill is involved, as is the case with the greater part of modern mass production methods, the line of demarcation between men's and women's jobs is much more difficult to explain. Here we have to admit that the greatest force is habit or convention. Many jobs which used to need skill no longer do so, but we go on thinking of them as 'men's' work because we are used to seeing men in them, and it is only when necessity forces us to try women in them (as during the two wars) that we are com-

pelled to realize that there was no reason why we should not have employed women in them for years past. These conventional boundaries change very slowly as a rule. Sometimes the barriers keeping women out of a particular field have given way before a determined frontal attack, as was the case in the medical profession (this has still not been accomplished in the Church of England), but, more often, the change has been brought about by circumstances. The acute shortage of manpower during the two wars accelerated the process, and it is unlikely that women will be ousted from all the new jobs they have undertaken; but the strength of convention can be illustrated by the efforts made by the London Passenger Transport Board to get rid of women bus conductors soon after the war, despite the general goodwill they had earned for efficiency, good temper, courage and resourcefulness during the very difficult years of the blitz.

It is, then, the restriction of the scope of employment which accounts more than anything else for the lower payment of women, and which, by continuing for so many generations, has fixed in people's minds the idea that women 'naturally' get, and should get, less than men. The great rise in the wages of domestic servants during the last thirty years or so is not due to a belated recognition of the dignity and importance of the domestic arts, but to the fact that the number of alternative employments open to young women has expanded so widely that the flood of potential servants has dwindled to a mere trickle; the same is true of the rise in the salaries of nurses and teachers, on account of the opening of other occupations for the middle-class girl.

But the long period during which women workers could be had for the asking has accustomed the world to look upon them as cheap labour. This is true not only of employers but of the women themselves, and of the men against whom they compete; and it is not surprising that it should be so, for it fits so completely into the social pattern of a world

in which men occupy all the most important positions and enjoy the greater authority and prestige. The demand for equal pay is not, and never has been, voiced by women workers as a whole; it comes from the small class of middle-class women in higher and professional jobs, whose work is more often directly comparable with that of men, who are keenly aware of the individual capacity they bring to it, and who fiercely and justifiably resent the implications of women's general inferiority which is symbolized by sex differentiation in rates of pay.

Can this inequality be abolished? To answer this question we must distinguish between two fields of employment – the one in which the Government or a local authority is the employing body, and the one in which the ordinary business is the employer. In industry and commerce, wages as we have seen are determined by collective agreement between representatives of both sides, and equality cannot be imposed by an external authority, unless we are prepared to give up altogether this method of agreeing rates. As a matter of fact, most male trade unionists have now learned that, for their own protection against the competition of cheap labour, it is wise to insist that women employed on the same jobs as men should get the same rates; but this apparent equality is often illusory, for the area of overlap in men's and women's jobs is not very great in the industrial world, and women are usually given the work which carries the lower rates. It is hard to know how such an evasion of the spirit of an agreement to provide equality can be prevented until women are more organized and also until industrial women workers feel very much more concerned about equality of remuneration than the majority of them do at present.

Far and away the most effective means of raising women's pay would be to remove the conventional barriers to the scope of their employment. The trouble here is that, in the past, new openings have been established because of the

eagerness of employers to use a supply of cheap labour, and, if there was general insistence that women should always receive the same pay as men, there is little doubt that fewer employers would be persuaded to overcome their traditional prejudices and engage women in jobs where they are unfamiliar. This is a serious dilemma. On the one hand sex differentiation in pay almost certainly increases the number of operations open to women and thus sends up the wages of women workers as a whole, but it is unjust to the individual woman who does the same work as a man for less pay; on the other hand, equal pay probably bolsters up employers' conventional reluctance to try women in new jobs and perpetuates the general restriction on the scope of their employment. The result is that those who *are* employed are more justly treated, but fewer are employed, and the probable effect may be to lower the wages of women in exclusively women's jobs by increasing the number competing for employment in them.

In the other field of employment, where the Government or other public body is the employer, equal rates of pay could, of course, be established as an act of policy, though it would require a change of the principle on which these rates of pay are at present established. Up to the present, employing bodies of this sort have justified sex differentiation in rates of pay by the principle of 'fair relativity', i.e. the rates fixed are intended to represent what would be paid to persons of comparable quality and attainments by good employers outside the Government sphere. This principle could be given up if the Government decided to do so, and the case for this action is particularly strong, as the men and women in these professions do exactly the same jobs. Some men in the teaching profession fear the consequences of equal pay because they believe it would react to their disadvantage. As women greatly outnumber men in this work (in the primary schools the ratio is two to one) there is a

danger that local authorities, faced with the heavy expense of bringing women's rates up to those of men, might be increasingly reluctant to allow any further improvement in standards of remuneration, and there is a similar possibility with regard to the executive and clerical grades of the Civil Service. In the administrative grades of the Civil Service there is little probability that such a danger would have to be faced. The proportion of women is comparatively small and, despite the lifting of the marriage ban, it is unlikely that any very large number of women will exercise their right to retain their jobs when they begin to raise a family. Here the problem may be that the service will attract too large a proportion of the available women, to the detriment of other professions, for, even now, the woman civil servant draws considerably higher pay than a woman of similar qualifications and ability in other occupations.

Whatever the arguments for and against Equal Pay, however, the trend of events is set definitely towards equality. Since the publication of the report of the Royal Commission the Government has announced its intention to introduce equality as soon as circumstances are favourable, that is, when it believes that the increase in the total salary bill which will be involved will not have the effect of strengthening the inflationary pressure on the short supplies of consumable commodities. This is one of the occasions on which most people are more deeply concerned with the moral issues than with the economic factors concerned. The injustice of paying one person less than the other, when both are doing identical jobs, is so obvious that it is deeply resented. The demand for equal pay on the part of professional women is not primarily motivated by economic considerations; the fundamental reason for the claim is resentment of the stigma of sex inferiority which the different rates imply. The insistence on equal pay is principally a demand for full rights of citizenship.

2. INCOMES FROM PROPERTY

The second source of income is from the use of property – land, houses, capital or anything else – and, as it is obvious that the amount of income we get in this way depends upon the amount of property we possess, we must see who are the principal owners. The latest analysis that has been made gives us the distribution in 1936. Most of us have some property (perhaps through buying National Savings Certificates or by putting a modest amount into the Post Office Savings Bank), but, as we can see from the following table, the amount that is possessed by the majority of people is too small to make any appreciable difference to their incomes.

Amount of Capital	% of Persons	% of all Capital
Above £25,000	0·4	39·8
£10,000–£25,000	0·6	15·9
£5,000–£10,000	0·9	10·6
£1,000–£5,000	5·2	18·2
£100–£1,000	17·5	11·3
Below £100	75·4	4·2

Since 1936 money values have changed, but it is unlikely that the *relationships* have altered materially.

As far as the three-quarters of all property owners who owned less than £100 each are concerned, the interest that could accrue to them could not be more than a pound or two each year, and the capital is valued as a 'nest-egg' for use in an emergency. The position is somewhat similar for the 17·5% whose possessions are in the £100–£1,000 class. Here the addition to income may be as much as £40 or £50, but it would still be true that the main purpose of accumulating such savings had been the comfort of knowing that there was

something available to meet an emergency rather than the desire to add to one's annual income. It is only when we get into the higher reaches of property ownership that the income it affords becomes considerable and, as we can see from this table, under 2% of property owners fall into this category, though between them they possess two-thirds of the total.

If we examine the ways in which people acquire property we find that this inequality accentuates rather than modifies the inequalities in incomes obtained from work. For the two principal ways of getting property are (a) by saving and (b) by gift, mainly, of course, by inheritance. The richer we are, the bigger the margin from which we can save and the more likely we are to build up our capital investments; so that, on the whole, it is the people who earn big incomes who also own property and, in turn, it is those with property who can afford the long education and have the social advantages which allow their children to enter well-paid occupations. Similarly, the effect of inheritance is to add wealth to wealth. People do sometimes divide their property at death amongst a number of poor relatives or servants, but this is sufficiently unusual for a legacy of a couple of hundred a year to an employee to be given quite a prominent place in the newspapers as 'news'. Most leave their property to their own kin, who are likely to be already in the better-off groups.

3. INCOMES FROM 'CIVIC RIGHTS'

Fifty years ago the individual member of the community was in a very much more precarious position than he is now. He was expected to be able to provide for himself and his family in all the vicissitudes of life, and only the grudging hand of the Poor Law or of private charity was held out to him if he slipped from economic independence. But during the last half century we have built up a remarkable system of social services, the aim of which is to guarantee to every person a

basic standard of living sufficient to prevent actual want. By means of national insurance, national assistance, family allowances and retirement pensions, every individual is assured a definite money income from collective funds if he is unable to provide for himself by his own work. The method of collecting the funds for these purposes varies from one to another, and not all of the money that is paid out comes from national revenue. In the case of health and unemployment insurance benefits, for example, the greater part of the money comes from the compulsory contribution made by the potential beneficiaries and their employers, but even here a considerable proportion of the total is contributed by the National Exchequer. In the case of national assistance and family allowances and non-contributory old age pensions, the whole of the expense is borne by the State. In the last complete year for which figures have been published (1950–51) these two together came to £571 millions.

A great deal of our social income is, however, concealed because we get it in kind, instead of as a direct money payment. This is the case with the publicly-provided education system, the new National Health Service, the provision for Public Health, the libraries and baths and wash-houses maintained by the local authorities, all of which represent services or goods for which we should have to pay out of our individual incomes, if they were not provided for us in this way.

Since the beginning of the war the subsidies on food have been an important addition to this item of concealed social income. In order to ensure that essential rationed foods should be within the reach of all, the Government has maintained a system of low maximum prices to the consumer, whilst encouraging increased production by guaranteeing high prices to the producer. The loss, which is borne by the Exchequer, was close on £500 millions in 1948, a sum which represented an addition of £10 a year to the income of every man, woman and child in the community. By this item alone

the income of a family consisting of a man, wife and two children was £40 a year more than their nominal money earnings. Since then food subsidies have been decreased, and last year were £250 millions.

In this calculation of the value of the food subsidies I was able to get a fair idea of their value to each of us by dividing their total cost by the number of the population, because practically all of us, rich and poor alike, whatever our social status or kind of work, take our rations. They consist of the types of food that form a customary part of the consumption of every class of society, and the amount that any one of us can have is strictly controlled by law. But that is not true of the other items in social income. A comparatively small proportion of us at any time draw retirement or old age pensions and very few are receiving unemployment or sickness benefit. Until the new National Insurance Acts came into force in the middle of 1948, and brought us all into one comprehensive scheme, a great many sections of society had no claim at all on these funds, because they were designed only for manual wage-earners and non-manual workers with comparable incomes; and although we are now all included in the scheme, it is still true that the incidence of, for example, unemployment is so slight amongst the professional classes or the high business executives that it is unlikely that any of them would ever be in the position to claim benefit under them.

With regard to subsidized house rents it is even more difficult to know who exactly are the beneficiaries. Both those who live in rent controlled houses and those who occupy local authority property pay rents which are far below the present economic value. But in the case of the former the tenants' real income is increased at the expense of those individuals who happen to have invested in house property and in the case of the latter the gain comes from national and local taxation.

With the publicly provided services such as education and

health, however, the amount of benefit received is due to the choice of the citizen himself.

We are all allowed to send our children to the primary schools, but many of the middle and higher income classes have not availed themselves of the right; and at present there are some who prefer to pay for the greater convenience attached to being a private patient of a doctor or a hospital, though they could have medical attention free of charge. In some types of service there is no choice, for a means test is attached to the receipt of benefit. This is so with assistance allowances of all kinds and with the extra benefits beyond the minima that are provided for those in need. By and large therefore, more of the 'civic rights' income accrues to those in the lower income groups than to those in the higher, and to this extent it offsets the inequalities in incomes from work and property ownership.

Indirectly, too, the social income tends to decrease inequality by influencing the amount that an individual receives from his work. As we have seen, the differences are due primarily to differences in the relative scarcity of persons capable of doing work requiring special qualifications, and as long as parents had to meet the full cost of educating or training their children, it was impossible for the great mass of the population to offer themselves for the better paid jobs, however valuable their inherent capacities might have been. Every extension in the educational facilities (and also in the health services that enable children to grow strong and healthy enough to take full advantage of them) widens the field from which recruitment to the more highly paid types of work can be drawn. In so doing it affects the relative scarcities from both ends; it increases the number able to offer themselves for the highly qualified jobs and it reduces the number of those who, without these facilities, would have been forced to try to squeeze into semi-skilled and unskilled occupations.

4. TAXES AND INCOMES

The money spent on the provision of these 'civic rights' is only part of the expenditure incurred by the Government. In addition there is the cost of defence (now a particularly heavy one), the maintenance of law and order, the building and upkeep of communications, such as roads and bridges, the upkeep of the Government itself, both at home and abroad, the interest on the national debt, and so on. As a result of the war, as well as on account of the developments in the social services, Government expenditure has increased enormously, from £920 millions before the war to over £5,000 millions in the last recorded year, a sum which represents nearly 40% of the total national income. This gigantic sum has to be collected by taxation, and we must now turn our attention to the methods employed for getting it out of our pockets and into the coffers of the Government, so that we may estimate the effects of these taxes on the relative amounts of income that we retain for our personal use.

The kind of taxes that a country decides to impose depends very greatly on what it is trying to achieve, in addition to the collection of a certain amount of revenue. Throughout the present century there has been developing in this country a very strong belief that a nearer approach to equality is a desirable objective of social policy, and, as one consequence of this, our taxation system has become steeply 'progressive', i.e. larger incomes are not merely taxed a larger amount, but at a higher rate of taxation than the smaller ones. Egalitarianism is not the only reason for this trend. The very large totals that modern Governments have spent could not have been collected in any other way than by progressive taxation, but the 'steepness' has increased because people dislike wide differences in citizens' incomes. This aim also had much influence over the *method* of taxation, because it is not possible in all types of tax to differentiate the

rates according to the income possessed by the taxpayer. From this point of view we can draw a broad distinction between direct and indirect taxes. Direct taxes – income tax, surtax, death duties – are those in which there is, so to speak, no intermediary between the tax collector and the taxpayer; indirect taxes – such as tobacco duty, entertainments tax and so on – are paid by the taxpayer as, and when, he buys certain goods or services.

Direct taxes can be graded carefully, not only according to the size of the income as a whole, but according to the use made of it, so as to encourage the kinds of expenditure which are thought socially desirable. In the British income tax system, for example, the proportion of the income which is 'taxable' (i.e. on which the tax is actually levied) takes account of the number of dependent children to be maintained (and whether they are receiving full-time education beyond the statutory school-leaving age), of adult relatives who are dependent on the taxpayer, of the amount spent on life insurance, etc. (The allowance given in respect of earned income, it might be as well to note in passing, is not on quite the same basis. It is not due to the belief that it is more moral or praiseworthy to earn than to live on the income derived from one's property, for, after all, a good deal of such property may have been accumulated by saving out of one's earnings, but to the belief that an earned income is more precarious. If the earner is ill or dies, it disappears, and he must, therefore, if he is to act prudently, put aside part of his earnings for future eventualities; whereas the property income continues irrespective of the life and death of the owner.)

This grading is not possible with indirect taxation. The girl in the cinema box cannot inquire into the size of the client's income and the number of children he has to support, before deciding how much to add to the price of the ticket in respect of the entertainment tax. A flat rate must be imposed

on all buyers, rich and poor alike. The burden of such taxes on small incomes is increased because of the absolute necessity to choose, for indirect taxation, the types of goods and services for which the demand is highly inelastic and, as we have seen in Chaper 2, this means that they form so integral a part of the customary pattern of expenditure that they are considered to be necessities. If this were not so, the tax, which to the consumer is exactly the same as a rise in price, would have the effect of reducing the quantities bought so appreciably that the Chancellor of the Exchequer would not get his revenue; whilst the unfortunate trade would be ruined by its reduced markets. In the last thirty or forty years we have tried to get round this inescapable dilemma by putting the main burden of indirect taxes on what might be called 'conventional luxuries', i.e. the types of expenditure which most people stubbornly try to maintain, despite rising prices, but in which a reduction of consumption on the part of those who find they can no longer afford them would not have any serious effects on health. In 1948, for example, £1,032 millions was collected by the taxes on drink and tobacco alone (the further £300 millions collected by purchase tax was not concerned primarily with the raising of revenue, but was an attempt to discourage people from trying to buy goods that, inevitably, had to remain in short supply – see the chapter on Imports and Exports). But whatever the form they take, it has to be faced that indirect taxes are regressive, i.e. they bear much more hardly on the smaller incomes than on the larger. Most rich people spend more on drink and tobacco, of course, than do those with lower incomes, but they spend a very much smaller *proportion* of their incomes on these taxed commodities.

Another criticism that one might bring against these taxes is on the score of injustice. The demand for beer and tobacco and cinemas is very widespread and, where it exists, it is very inelastic; but it is by no means universal. There are

hundreds of thousands of people in the community who never smoke, never drink, and rarely visit a cinema or other place of entertainment, and such people evade, quite legally, a great deal of the tax burden borne by their fellow citizens. It is very difficult, if not impossible, to justify this discrimination except on the grounds of expediency.

In this case, why don't we cut out indirect taxation altogether and get all we need by the direct method? There are many who have argued that this would be the right policy to pursue, but we have to admit there are many obstacles to be overcome. The principal one is, perhaps, psychological. A direct tax is a constant 'nagger', whilst an indirect one tends to be overlooked, once we have got used to it. Few of us could say offhand how much of the price of a packet of cigarettes represents the tobacco tax, but we can't help but be aware of the amount taken from the pay packet each week or month for P.A.Y.E. income tax. If we are keen drinkers or smokers, and it costs more to indulge our taste, we are anxious to earn more to make this possible; but if we are acutely conscious of the amount of our earnings that is taken for income tax we begin to wonder if it is worth while to do the extra shift or improve our speed when so little of the extra earnings actually reaches our pockets. It is generally accepted that it is right that exceptional effort should have exceptional reward – overtime rates, for example, are higher than rates for the normal working day; and business men expect to make higher rates of profit to compensate them for work that is particularly venturesome, or that require special qualities or initiative. The trouble with a heavy income tax, particularly when it is steeply progressive, is that the higher the rate of pay, the higher the *rate* of taxation, so that what remains as payment for the extra effort may be less instead of more. This is one of the occasions when the cussedness of human nature makes it specially hard to reconcile a course of action of which we approve on social

grounds with the way we behave as ordinary, rather selfish human beings.

A word must be said about the death duties, which have, at one time and another, aroused so many and such conflicting emotions. There are still many people who insist that any tax on capital must be unsound because it is on a par with 'killing the goose that lays the golden eggs'. As far as the relevance of this to the death duties is concerned it is based on a complete misconception of the nature of capital. There is not, of course, anything like the hard and fast line of demarcation between capital and income that this belief assumes. A high income tax might just as well be thought of as a tax on capital, for it reduces the margin out of which savings could be accumulated; a death duty simply waits until the capital has been formed out of the savings and then taxes it. It is a question of timing, that is all; though the timing may be an important factor in the assessment of its effect.

On the other hand, there are many who believe that all inheritance is unjust, since the beneficiary reaps where he has not sown; and it is a fact that inequality has been perpetuated more by freedom of bequest than by any other one factor. The problem here resolves itself into two questions. (1) Is the private accumulation of capital necessary and desirable in our kind of economy? (2) If it is, would a very stiff set of death duties make people unwilling to save the necessary amounts? The answer to the first question depends on the extent to which industry and trade continue to be financed by private investors. There is no question that capital is essential and that it cannot be produced without saving; but the real question to be answered is: Who, in fact, *does* the saving? Fifty years ago – even less – the question would have been hardly worth asking, for there was so little alternative to the private accumulations of capital, but times have changed, and this is no longer so. Nowadays a

large part of the capital needed for industrial development is provided by the joint stock companies which, as a matter of sound financial policy, customarily build up their capital reserves instead of distributing the whole of the profits that have been made to their shareholders. The same is true of the productive activities of the local authorities, and, with the extension of the area of production under public ownership, there is no doubt that a similar policy is likely to be pursued by the public corporations.

How far are 'collective' sources of capital likely to be adequate to provide the amounts required? In a survey made a few years before the war, Mr Colin Clark stated the opinion that large private incomes had ceased to count as a source of saving, though, as he hastened to add, opinions might differ as to whether this was due to the level of taxation, low investment rates or lack of investment opportunities. For it must be remembered that this survey was made at a rather exceptional time, when there had been a prolonged depression and there was no great desire to experiment with new ventures. Once a business is established and making substantial profits it can, perhaps, rely on its own resources for its further expansion; but until that time it must, like any new development, depend on the willingness of private investors to save their capital and to venture it in these new fields.

This brings us to the second question. 'Would very stiff death duties so far reduce the willingness to save that the needed capital would not be forthcoming?' The answer to this question cannot be given categorically, for it depends on the reasons for saving at all. Do we save primarily for the sake of leaving property to our children, and would we, then, cease making this sacrifice if our children were to lose, by heavy taxation, a great part of what we had left them? Many people believe this to be the case, but human motives are so complex that we cannot give a straight 'yes' or 'no' to such questions. Of course, most parents are fond of their

children and there is a strong convention in favour of providing for them by legacies, but it does not seem, as far as we have evidence, that this desire is invariably the reason for hard work and accumulation. In a detailed investigation made in the twenties, Mr Josiah Wedgwood found that 33% of those leaving big fortunes (over £100,000) during the preceding decade had had no surviving children and that 23% were not even married; it is clear that these could not have been moved by family affection. Many men save because they are more interested in making a fortune, and in the power and prestige it confers, than in the more ordinary enjoyment of consumable luxuries; or perhaps they are anxious to retire early and have more time for their hobbies. Of course, family affection plays its part, and a big part, too. There are few parents who are not anxious to give their children a good start in life and who are not ready to make real sacrifices by putting money aside for the purpose. But most children have started out on their adult life long before their parents die, so that if this was the principal motive for saving, there would be no need to worry about the effect of taxes that are not imposed until the parents' death.

Apart from this, the desire for security is probably the biggest factor in encouraging us to save part of our incomes. Most of us like the idea that we have something put by for eventualities; some of us can go even farther and hope to collect enough to enable us to retire and live comfortably, or to buy the little cottage in the country on which we've kept an eye. But, although these 'security savings' as a total form one of the big sources of capital accumulation, the amount saved by each individual on the average is comparatively small, and consequently the amount of death duty payable on it by his heirs is very nearly negligible. That the desire for security on the part of the saver plays at least as important a part in his motives as the wish to provide for his children is shown by the significant fact that, although

death duties can always be evaded by handing over one's property a sufficiently long time before death, a comparatively small number of wealthy persons have availed themselves of this right and have preferred that their children should inherit less in the future than that they should divest themselves of the powers and privileges of wealth during their own life. Perhaps this is due to the fact that we all study 'King Lear' during our schooldays!

We have to agree, therefore, that there are many reasons for accumulation of capital and that heavy death duties would reduce only that part of the savings that are the result of the wish to provide for one's family after one's death; and even then only the savings that are large enough to be seriously affected, for there is always an exemption limit for modest estates. But there is still another point to consider. A death duty cannot, any more than any other tax, rightly be judged by itself. If the Government has to raise a certain amount of revenue and a death duty is thought to be a disadvantageous method, it must find some alternative, and, presumably, a higher income tax would be the only choice. So the question resolves itself into 'Which is likely to have the more serious effect on savings – on the one hand, a heavy death duty levied when the savings are bequeathed at death or, on the other, a reduction or complete abolition of death duty but a proportionately heavier income tax?' Who knows? It is largely a matter of temperament. Some people would rather meet liabilities year by year and leave unencumbered property to their children; others would prefer to put off the evil day, enjoy the fruits of their industry now and leave less to their families in the future. On the whole, human nature being what it is, it seems likely that taxes that have to be paid in the future are easier to bear, and have a less discouraging influence on effort and saving in the present, than taxes which are levied each year with nagging persistence.

STRIKING THE BALANCE

What does all this add up to? How far do taxes modify the distribution of income? If we take income tax and surtax alone we have very accurate knowledge from the tables published each year in the White Paper on National Income and Expenditure. From the tables published in 1949 we get the following comparison of the incidence of these taxes in 1938–9 and in 1949–50.

Income tax and surtax are only part of the story, for almost half of the total revenue is raised by indirect taxes, and these, as we have seen, bear more heavily proportionately on the smaller incomes; so we should need to assess the amount of indirect taxation paid in these various income ranges before we could know the true effect of taxation as a whole. Unfortunately we do not know this with the same precision as we know the amount of direct taxation. Everybody is legally

Range of Income before Tax	Proportion of Income before Tax retained after Tax, 1938–9	Same, 1949–50
Below £250	99·8	99·8
£250–£499	97·5	95·7
£500–£999	91·2	83·4
£1,000–£1,999	85·2	70·9
£2,000–£9,999	70·8	53·5
£10,000 and over ..	43·4	20·2

bound to pay the appropriate income tax, but nobody is *bound* to pay tobacco, or alcohol, or entertainments tax, and the amount one does actually pay depends on what one spends on these things and not on the size of one's income.

As we have seen when discussing the compilation of the Retail Prices Index, there is no such thing as a 'typical' family and no 'typical' pattern of expenditure, though there

certainly *are* fairly widespread habits of consumption. We know quite accurately the total amount spent by the community as a whole on each commodity that is taxed, because we know how much tax has been collected, but we don't know how much has been bought by each individual, nor how much each family in different income ranges spent on them. Knowing the total that has been bought and with some knowledge of habits, we have to *presume* a certain amount of expenditure by persons in the various income ranges. The last published estimate of the amounts paid in indirect taxes made in this way refers to 1941–2. The authors of it* took a household, consisting of man, wife and two children, and calculated how much such a family would pay in taxes on commodities and services, assuming that they consumed a moderate amount of the taxed articles. This was the result:

Income	% of Income spent on direct Taxes	% of Income spent on indirect Taxes	Total Tax Burden
1937–8			
£			
150	2·3	14·1	16·4
250	1·4	12·5	13·9
350	—	11·3	11·3
500	1·7	12·8	14·5
1,000	10·3	9·0	19·3
5,000	28·3	4·2	32·5
10,000	38·5	2·8	41·3
20,000	47·5	2·0	49·5
50,000	56·6	1·1	57·7
1941–2			
£			
150	2·9	21·3	24·2
250	1·8	17·8	19·6
350	8·2	16·0	24·2
500	15·2	15·2	30·4
1,000	30·1	9·7	39·8
5,000	55·1	3·9	59·0
10,000	67·8	2·3	70·1
20,000	80·5	1·2	81·7
50,000	90·7	0·6	91·3

* Shirras and Rostas, *The Burden of British Taxation*.

It may be surprising to find that the smallest incomes pay any direct taxes at all. The reason is that these incomes fell within the scope of compulsory health and unemployment insurance schemes and the workers' contributions are here counted as direct taxation. Those with incomes of £350 before the war earned too much to be included in these schemes, but too little to pay income tax; hence they bore no direct taxation. By 1941–2 this group had moved a little further up the scale. These tables show the regressive nature of indirect taxation, but by 1941–2 the high rates of income tax were more than enough to compensate for this; and, as very few people by that time had as little as £150 a year income, the taxation system as a whole had become, for the first time, progressive over the whole of its range. Since that time both types of tax have been increased, but direct taxation has risen much more steeply than indirect, so that the total of taxation has become more steeply progressive.

The total effect of taxation nowadays, therefore, is to bring about a much greater equality of income than there seems to be if we look only at the range of incomes as they are *received*. The amounts received are very unequal; the amounts *retained*, after taxes have been paid, are much less unequal. If, in addition to this, we take into account the effects of the income derived from 'civic rights', whether in the form of direct money grants or in the value of food subsidies and social services, the movement towards greater equality is further strengthened. The combined result of taxation and social services together is to effect such a considerable redistribution of income as to merit its being called 'a silent social revolution'.

GRAMASEVAKS TRAINING CENTRE
16 APR 1955

CHAPTER 10

UPS AND DOWNS IN PRODUCTION AND EMPLOYMENT

SINCE the war there has been an acute shortage of labour in many industries, and very few people have been unemployed. Less than twenty years ago – in the early thirties – it was exactly the opposite; three million men and women were out of work – 23% of the whole insured population – and the percentage of unemployed fluctuated between this high figure and round about 10% throughout the entire inter-war period. How can we account for this difference? The easy answer is that there is a lot of war destruction to repair and arrears of civilian demands to make up; but, after all, we can't pretend that we all had everything we wanted before the war and that there was not the same lack of all kinds of essential goods during the thirties. Everybody would have been only too glad to have had more if he had felt that he could afford it; but most of us were afraid to buy even if we *were* in jobs and those who weren't in work had not the means; so the industries making the goods we should have liked to buy were depressed and their workers unemployed.

This was not an unusual state of affairs. In fact, ever since the beginning of our modern type of industry these ups and downs have been a feature of our economy. The fluctuations of the inter-war years were, perhaps, more violent and the depression more prolonged than in earlier times, but the same alternation of years of activity and prosperity and years of stagnation and gloom has characterized industry for a century or so; not only in Great Britain but in all highly developed industrial countries. Records of the earlier part of this period are not very comprehensive, but there are enough

indications to show that the experience was pretty much the same as we know it to have been during the time – i.e. the last seventy or eighty years – when our records have been fairly accurate. These records show that the 'ups and downs' usually take place every eight or nine years; sometimes the span is a little more, sometimes a little less, but generally, without trying to be precise, one can say that there is a period of prosperity and one of depression in each decade, and it is this fluctuation to which the name the 'trade cycle' has been given. For some reason, to be explained later, people begin to take heart after a bad patch; orders are given to factories, who take on more workers, more money is spent to restock warehouses and to buy the goods we denied ourselves when employment was precarious, and soon the whole economy is humming with activity. But the good times do not last; warehouses become overstocked, orders are cut down, workers are turned off and have less to spend, and those still in employment put off buying things they can do without, as a precaution in case they should also have bad luck, and we are back in the depression. Why does this see-saw take place?

This question is of much more than academic interest. Of all the features of our modern industrial civilization there is none that is more dreaded than the loss of one's job, partly because, as we have seen in the last chapter, most of us get our incomes from our work, but also because our self-respect and our sense of being of use in the world are closely bound up with the ability to hold down a job. Unemployment means a loss in income and a fall in the standard of living, but it also induces the despairing feeling that we are not wanted and that we have no place in the community. It is probably true to say that the widespread unemployment which results from depression, and the fear of it during more prosperous times, have caused more unhappiness and done more to undermine confidence in our present economy than any other element in our life. And the almost obsessional desire

for security which is its corollary has had, and still has, an incalculable influence on our industrial structure, on political programmes, on the policy of the trade unions and on our scales of values.

As far as the trade unions are concerned the ca' canny policy, the hostility to piece rates, the dislike of labour-saving machinery, the antagonism to the introduction of women workers, the restriction of the number of apprentices, and similar policies, have derived their main inspiration from the passionate desire to make sure that there is a sufficient number of jobs to be done. (Not, be it understood, that these various policies proved, in fact, to be the best ways of maintaining regularity of employment for those who pinned their faith to them, but yet they *did* pin their faith to them because they believed they would have this effect.) In the same way, business firms have tried to gain control of their markets by Price Associations and similar forms of amalgamation, with the aim of regularizing the demands and prices of their products. And no political party that had any hope of being elected would dare to omit from the forefront of its programme support for the measures required to protect the community from serious fluctuations in employment. In fact, so great an impression did the disastrous chronic mass unemployment of the thirties make on the whole population that all political parties have now accepted the view that the Government has the responsibility to try to maintain a 'high and stable level of employment.' In the White Paper on Employment Policy published in 1944 the National Government announced its acceptance of this responsibility. What, then, is the root of this instability?

CONSUMPTION AND CAPITAL MARKETS

All production must be carried on in anticipation of the demand for the goods wanted. If I decide to buy a new table for the dining room I don't begin by growing a tree to pro-

vide the suitable timber; I go to a furniture shop, or probably to several, where I can expect to find a variety of tables of different designs and prices from which to choose. Yet these tables could not have been there without a long and complicated series of processes – growing and cutting the timber, getting it to England, seasoning it, shaping it to particular designs and transporting it to a shop in a suitable district, where I can have the opportunity of inspecting the result of all this work at my leisure. Many people have had to look ahead and guess that I, and others like me, would want to buy tables of this or that type, and have set the whole chain of events in motion. None of them could be certain that there would be enough of us ready to buy to justify all the costs involved in producing the finished product. They have had to back their own judgement, and gamble on their estimates, by undertaking all the expenses of production, without any guarantee of being reimbursed by their sales to buyers. This is not, of course, a blind speculation; they have all sorts of pointers by which to judge – the experience of the past, their knowledge of changes in the size of the population, the general state of trade, changes in taste and so on – but nobody can foretell the future accurately and, however careful they are in their estimates, they may prove to be wrong.

In an earlier chapter it was explained that the word 'demand' has a special meaning when it is used by an economist; it does not refer simply to our wish or desire to possess something, but to a desire which is allied to an ability and a willingness to offer a reasonable price in exchange for it. So the job of the producer is to try to find out not just how many goods people might like to buy, but how many they would be prepared to buy at a price which would be enough to make it worth while for him to produce them, i.e. he has to try and estimate the *effective demand*. If he thinks effective demands will be less he cuts down production and there is

unemployment; if he thinks they will increase there is the opposite result. So, in order to understand why there are alternations of employment and unemployment, we have to explain why effective demand changes its volume in this way.

The amount we buy of things as a whole depends partly on our tastes, temperament and obligations and largely on the amount of income we have at our disposal. The incomes we get are our shares of the wealth that is being produced. When a thing is sold, the price paid for it is divided up into wages for the workers who have helped to make it, salaries for the technical and administrative staffs, interest on the capital, rent for the site, payment for machinery and materials and profit for the risk-takers; and it is the way in which we spend the shares we get which determines the demands (and consequently the volume of employment) for all the things we consume. So all of us are both income receivers and income spenders; the amount we get as producers, or as owners of property which others are using, determines the amount we have available to spend as consumers; and the way in which we spend as consumers determines the volume of production and amounts that we shall receive in return for our work, or the use of our property.

Few of us spend the whole of our income as we get it. Practically all of us (unless we are extremely poor or extremely improvident) put something aside for the future. We save to provide for old age, or for periods of sickness or unemployment or to leave our families with an income if we die, or to educate the children or start them in life, and some of us (never very many at any time and very few indeed at the present rates of taxation) save because our incomes are so big that it is less bother to save a part than to think of more things to buy. Whether much or little, almost all of us save something; and on the whole, the more we get, the larger the margin out of which such savings can be made.

As a rule, the amount we save is largely a matter of habit --

habit which, of course, can change as other habits do, but which does not alter very much, nor very quickly. Now, when a man says that he is saving so much of his income, he means that he is not spending it, but that does not mean that no use is being made of it. He does not usually bury his savings in the garden, or hoard them in a money box, but, through the agency of the banks, joint stock companies and other financial institutions, he lends them to people who need capital to finance their businesses. The man who saves, refrains from buying the new clothes or radio set or what have you that he might have purchased and, instead, the business that borrows his money uses it to buy tools or machinery or to install a lift or build a new workshop. There are thus two kinds of demand in the market: one for consumption goods, that is, for all the things you and I buy to satisfy our individual wants, and the other for capital goods, that is, for all the various stores and equipment that are wanted in production. So that what the individual thinks of as saving is, from the point of view of society as a whole, simply another form of spending. Now this is where the snag comes in.

When we buy goods for our own use we do so because we believe that they will satisfy our wants. We may make a mistake, but we generally learn by experience to shop carefully, and, as we are very much aware of our own likes and dislikes, we can usually tell whether the article is likely to fill the bill or not. But when a business man buys tools or equipment, he does so in order to produce more cheaply, or more efficiently, or in greater quantities, the goods that later he hopes to sell at a profit. He does not want the tools for their own sake as we individuals want the food or cigarettes we buy, but only for the part they will play in making other things. This means that his willingness to buy machinery depends on his prospects of selling the goods, and as he doesn't know for certain that he will be able to do so, he will hold back unless he feels fairly confident. He may decide to

be cautious and buy only a small amount of equipment this year, until he has a chance to see how things go. So that there is no guarantee that all the money which people save out of their incomes and are prepared to lend to businesses is, in fact, invested in the purchase of capital goods; and in this case, some part of the income is not spent either on things for the individual or on things for production. In such a situation the demand for goods as a whole is less, and general unemployment is the consequence.

If we look back over the records we see that there is a strong tendency for this to happen fairly regularly, because the purchase of capital goods has the habit of going in spurts. When a new industry is establishing itself, or when an old industry extends its market, or when its techniques undergo a really appreciable change, there is a big demand for all the types of equipment it uses and the constructional industries – building, engineering, transport and so on – become very profitable and active. The effect of this soon spreads outwards and influences other trades which seem to have little direct connexion with the constructional industries; for as the shareholders and managers, the technicians and workers in these industries find themselves with larger incomes to spend, the consumption trades, which make the food and clothes and radios and bicycles that people spend their money on, soon find that their markets are expanding too. Now most capital equipment has a fairly long life and, once a business is equipped to meet its likely market, its demand for further tools will be pretty slack until its old machinery wears out, or until new methods are introduced which are important enough to make it worth while to scrap the old machinery even before it is worn out. Once the new machinery has become established, therefore, it becomes more and more difficult to find profitable uses for further supplies of it. Some investments fail to bring in the profits that were expected, so people begin to be less confident about the future

and judge they had better hold back for a time before committing themselves to the new factory buildings or machines they had planned, until they see how things are going. As they cut down their investment in these things, the field for employment in the constructional industries is reduced, and with fewer workers in jobs and smaller profits being earned, it is not long before the consumption trades also feel the cold blast.

Since the war the position has been much the same as when important new methods are introduced. There have been such large arrears of demand for civilian goods all over the world, as well as in this country, that manufacturers have had no fear of producing too much for a profitable sale. So few things have been available for purchasers that they have not bothered too much whether they were exactly what they would have chosen; they have taken what they could get and been thankful for it. But already a change has become apparent. As reconstructed industries have got into their stride, and more goods have reached the market, stocks have piled up because purchasers have become more choosy and less willing to pay the high prices asked. Once again there are signs that producers may soon be in the same position as they were before, of having to produce in the *hope* rather than the certainty of a sale. Unless we do something to prevent it we shall be back in the swing from good trade to bad and back again, with all its attendant miseries, in large-scale unemployment and poverty.

FULL EMPLOYMENT POLICY

What can we do to prevent it? How can the Government maintain a 'high and stable level of employment', as it has accepted the responsibility for doing? The problem we are up against is to try to make demand keep pace with production. There is no lack of the things we want; there is no danger of our power of production outstripping our total needs. What

we need to do is to plan our demands so that purchasers are always ready to buy the amount that we are capable of producing. The trouble is that we cannot compel ordinary consumers to buy articles when they believe they cannot afford them, or fear that they may soon be out of work and would have been better advised to save their money. But the spending done by public authorities *can* be controlled and we can take care that it is well-timed. Every year the Central Government and the local authorities spend hundreds of millions of pounds on all the things that are now under public control – schools and houses and their equipment, roads and bridges, transport, civic institutions and so on. A great deal of this can be planned in such a way as to fit in with private purchasing so as to be able to keep the total amount of demand, both private and public together, more stable.

This is not a new idea; it has often been suggested in the past and has even been tried to a slight extent, but it has never been attempted as a deliberate, carefully organized policy. To be really effective three conditions are essential:

1. The policy must be carried out on a large enough scale to make an appreciable difference to the market. The spending of a few hundred pounds in a niggardly fashion will not do the trick.

2. Plans must be made beforehand, so that public projects can be put in hand with economy and efficiency as soon as the time is judged ripe. As most such projects fall within the province of local authorities and public utility undertakings, this will necessitate a close relationship between these bodies and the Central Government.

The White Paper in which the Government announced its new policy suggested that local authorities should be required to make their plans for a period of five years ahead and that a central committee should co-ordinate their programmes and adjust them in the light of the prospective

employment situation. By temporarily withholding grants the programme of a local authority can be slowed down, or conversely, by financial assistance, it can be accelerated as the situation demands.

3. The policy must be carefully financed. In the past it has been a recognized axiom of public finance that the State raises each year enough revenue to pay its bills for the year. But if the Government decided to increase its expenditure during a time of slack trade it would not do much good if it had to depend on getting the money by higher taxes at the same time. In such a case taxpayers would have to cut down their own buying in order to pay their higher taxes and the whole effect of the Government purchases would be lost. It would be necessary, therefore, for the Government to finance part, at least, of its public investment by loans. At the same time it must be remembered that the Government must eventually raise sufficient by taxes to pay its way, even if it does not balance its Budget every year.

Let us admit, at once, that this is not an easy programme. There are many public undertakings which cannot be postponed, because the loss in social welfare in doing so would outweigh the loss and suffering of a certain amount of unemployment. Again, most projects are necessarily large in conception and many are so closely interconnected that it is not practicable to delay one part when the rest has been begun. A new housing estate, for example, requires much more than the houses for the new tenants. Streets and recreation spaces, schools, libraries, hospitals, shopping centres and cinemas must all develop at the same time, whether the employment situation demands increased activity or not. You cannot leave the roads unmade and abandon the inhabitants in a welter of mud, far from all the amenities of urban life, because ordinary non-Governmental demands have increased sufficiently to keep productive resources in full employment.

Some people believe that this programme does not go far enough. They say that it might even out some of the more violent fluctuations but it would not ensure that full use was made of all our productive resources; and they propose that all capital investment, whether public or private, should be brought under the control of a National Investment Board, whilst extending the section of industry which is directly owned and controlled by public authorities. Both these suggestions, however, involve much more than the prevention of mass unemployment; they depend primarily on one's belief about the rival benefits of an economy of private enterprise and one that is planned by a Central Authority. As this was discussed in Chapter 2, it is not pursued further here.

Another proposal which is put forward is one which was tentatively adopted by the Government in the White Paper mentioned above – that the contributions payable under the social security scheme should be made to vary with the employment situation, rising when trade is good and falling when trade is bad. The aim, of course, is to leave employed people with more purchasing power when consumer demands are showing signs of falling, so as to persuade them to spend more freely, and the reverse when resources are fully occupied. It is doubtful whether such a scheme is really practicable or socially desirable. Financial calculations and administration would get into a hopeless muddle if the value of the weekly insurance stamp was suddenly and frequently changed, and, as the main purpose of the insurance scheme is to provide people with a sense of security in this complex and unstable world, a new element of instability, arbitrarily imposed on principles which the general public would find very difficult to understand, is hardly likely to help towards the desired objective.

Supposing that we are successful in this policy of ironing-out fluctuations in the trade cycle, does this mean that unemployment would be a thing of the past? Unfortunately,

no, for there are many other causes of unemployment which, though they are not so important nor so widespread in their effects, may have serious consequences. The changes that have been discussed so far are those that affect the total volume of demand 'in general', not for one thing rather than another, but for everything taken together. But there are changes which are due to the fact that we substitute one thing for another; we may spend the same amount of our income as before, but the articles we choose are not the same. It is easiest to see how this may happen by a few illustrations:

(a) New things are invented which suit us better than the things we had earlier, e.g. we like motors car instead of hansom cabs, or rayon underclothing instead of cotton, or electric fires instead of coal-burning grates.

(b) Our wants may remain the same but new and better methods are devised for satisfying them, e.g. electricity is used instead of steam power, automatic machinery in the place of hand tools, or cranes instead of human porters, etc.

(c) We want certain things at one season of the year and other things at other seasons, e.g. coal and mackintoshes and plum puddings at Christmas and hiking shorts and ice-cream in the summer.

All these changes in our demands inevitably affect the amount of goods that can profitably be produced in these trades, and, therefore, affect the amount of employment available in them. If we were all interchangeable as producers it would not matter that we want a lot of this at one moment and a lot of the other at the next. But as we are all specialized, some of us are left high and dry in our occupations while the tide of demand recedes and floods another channel. In the third of the changes mentioned above the tide will return; it is a seasonal affair and moves more or less regularly from one group of industries to another. But in (a) and (b) the changes in the demand for workers are due to permanent changes in the *structure* of industry, and this

entails a relative shift in the occupational distribution of the population.

Let us take the seasonal changes first. It is fairly obvious, even to a nation of townsmen, that farmers have different jobs to do at different times of the year and that they need many more workers, say, to gather the harvest than they can employ regularly all the year round; but we often ignore the fact that there are seasonal changes which are just as marked in other industries. For example, building, which must ordinarily be done in the open air, is more likely to be interrupted by snow and fog and rain during the winter months. Even without these special handicaps, as the winter days are shorter, it is impossible to get as much done as in the longer summer days. So builders are more likely to tackle their work in the summer months. This does not mean, of course, that men will down tools in the middle of a big job and wait for the better weather, but it does mean that where a choice is possible, as it is in all the kinds of building which take only a few months to complete, more projects are likely to be begun in the spring than in the autumn. So all building workers can usually anticipate some weeks of unemployment as a regular feature of their work. The rate of building affects a whole host of other occupations that, as far as their conditions of manufacture are concerned, could be done the whole year round. Cupboards and doors, baths and cooking stoves and drain pipes are all made in factories that are unaffected by the climate but, as they are parts of buildings, there is no demand for them unless buildings are going up, so they, too, are seasonal in activity. The same is true of furniture and decorating.

Clothing is another big industry which is affected by the seasons. We generally buy our lightweight clothes in the early summer and our heavier in the autumn, so all the workers engaged in these industries are extremely busy in the few months preceding the chief buying times and slack –

working short time or completely unemployed – afterwards. It might seem, at first sight, that there is no reason why the manufacturers should not go on steadily all the year round, even though we don't buy regularly; but we must remember that fashion makes the manufacture of clothes a speculative and chancy business at the best of times and the longer the interval between making and selling the greater the gamble. So everybody employed in anything to do with the production of clothes or millinery can expect a certain annual amount of unemployment or short time.

Another group of industries which is much affected by the seasons is those connected with hotels and catering. There is frenzied activity in July and August with minor peaks at Whitsun and Easter and Christmas and very little work at holiday centres at any other time. As far as present experience goes, it seems that no amount of propaganda, with dashing posters showing the pleasure and enjoyment to be derived from taking holidays at the quiet times, can wean the British holiday maker from his determination to go away at the same moment as everybody else; and a great up and down in employment possibilities for the worker in these occupations is the result. The same thing is true, consequently, of all the trades that cater for the people who have time to fill in and money to spend – the bus excursions and pierrot troupes and so on.

Toy-making is another big industry which blazes into activity at one period of the year, in preparation for the orgy of present-giving at Christmas time, and hardly ticks over at others. Publishing, too, shares in this because so many people buy books for presents who would never dream of buying a book at any other time; so printers and bookbinders are busier in the autumn months than at any other part of the year. In both these groups it is social custom rather than climatic changes which cause the ebb and flow of trade; but social habit is almost as difficult to change as the climate.

Fortunately these seasonal factors do not affect all industries in the same direction at the same time; some industries are busy in the spring or summer and others in the autumn or winter. In fact, there is no month of the year in which some occupation or other is not having its busy period and some its slack time. So that, although there are pockets of dispersed unemployment, there are not a large number out of work at the same moment from this cause. And, on the whole, such unemployment is not very serious in its effects. It is sufficiently regular for workers to know they must reckon on it. This does not mean that each individual knows just how much slack time he will have to cope with, but he does know that there will be *some* people out of work in his trade and that, if he happens to be the unlucky one, the unemployment is not likely to be prolonged.

The effects of the changes in demand I have listed as (*a*) and (*b*) are much more important and much less calculable.

During the inter-war period these structural changes added enormously to our problems, because the industries which were shrinking in size happened to be concentrated in certain areas and the new expanding industries established themselves in quite different localities. So that people thrown out of work in the former had to face the misery of moving their homes, as well as learning new jobs, if they were to get absorbed into the new industries. Many attempts were made to encourage new businesses to settle in the areas where there was labour already available and, since the war, 'taking work to the worker' has become an accepted part of the policy for preventing unemployment. (See Chapter 5.)

But this problem of structural changes points to one of the greatest difficulties in the control of unemployment. No policy for maintaining employment at a high level is intended to guarantee to each worker permanent employment in the job he happens to be doing, and if we are to get rid of unemployment as a serious menace, the ordinary citizen must be

prepared to do his share and be ready to change his job when necessary. We are now a lot better off than previous generations, because we have learned new and more efficient ways of producing what we want. Our great-grandfathers spent nearly all their time and energy in growing their food and raw materials for their clothing and other essentials; consequently, their manner of life was narrow and poor. Then expanding knowledge and quick communications enabled us to get these things more cheaply from parts of the world where they could be produced more easily and set us free to make that wealth of manufactured goods which has so vastly raised the standard of living.

Suppose that our forbears had obstinately refused to go into the new industries, on the plea that they were agricultural workers and had the right to remain so all their lives. There would then have been no possibility of the immense variety of things, clothes, furniture, radios, gramophones, cinemas, motor-cars and bicycles and aircraft, which we now take for granted and accept as almost essential to a reasonably good standard of living. The control of investment, with the object of maintaining stable demand, will not try to prevent further technical developments from taking place; it would be fatal to welfare if it did. All it aims at doing is to prevent a *general* decline in markets, i.e. to ensure that new avenues of employment open as old ones shrink. But this is no use unless people are ready to recognize the need to change their old jobs for new ones. This is a real difficulty because it is a psychological one. Most of us are pretty conservative in our routine of life and especially so in the way we earn our living. It is a great jolt to realize that we are no longer wanted in the work we are used to, and it needs courage to face this fact and to be willing to learn something new.

The problem is made more serious by the extraordinary difficulty of establishing whether a falling off in demand for

a particular type of article is due to a temporary recession from which it will make a good recovery or whether it is the beginning of a permanent decline in its market. After the end of the First World War it took a whole decade for us to realize that the shrinking in our coal and cotton industries was not the result of a temporary post-war dislocation, but that there had been a permanent shift in the world's relative demands. As we are all inclined to think that our own work is the most important job in the world and hate the idea of any fundamental change in our way of living, there is always a strong temptation to be over-optimistic in our estimate of the situation and to assume that the trouble is not likely to be due to any long-term factors.

The great danger here is that people who find themselves out of work will take it for granted that it is the Government's job to bolster up the demand for their products (as part of the 'maintenance of the high and stable level of employment' policy) when what is really needed is the courage to face the facts that the industry is too large and that redundant workers must be trained for new kinds of work. Unless ordinary men and women have this courage and are prepared to change their occupation when necessary, no amount of Government action can keep unemployment from becoming serious – unless, of course, we also consent to have a lower standard of living than we need, in order to keep on with the old methods.

INDEX

Admiralty, 70
Advertising, cost of, 109, 110
 faults of, 113 ff.
 forms of, 97, 99
 value of, 108–12
 virtues of, 97
African labour, 15
Agrarian revolution, 144
Agriculture, 53
 effect of tariffs on, 156
 Ministry of, 70
Agricultural Marketing Acts (1931, 1933), 68
Aircraft, 11
Airways Corporations, 60
American Loan, 146

Bank deposits, 127 ff.
Bank of England, 127–30
Bankers' Clearing House, 128
Banking, 141
Barlow Report, the (1940), 89
Basic food, cost of, 164
Basic standards, 33–4
Board of Trade, 70, 91, 164
Booth, Charles, 48
Bretton Woods agreement, 154
British Broadcasting Corporation, 36, 37, 60
British Electricity Authority, 60
British Transport Commission, 60
Budget (1949), 202
Budgetting, personal, 22, 23, 35, 36
 national, 121, 122
Building industry, 30, 72, 90, 91, 149, 227
Butlin Holiday Camps, 54

Capital, accumulation of, 208, 209
 amount required, 45
 export of, 141, 152
 industrial, 83
 investment, 225
 mobilization of, 58, 59
 private, 54–7
 provision of, 220, 221
 social, 83, 84
Capital Goods, 221 ff.
Catering Wages Act, 182
Cheap Labour, 195, 196
Citizens, welfare of, 33
Civil Service, rates of pay, 198
Civilization, growth of, 20, 23
Clark, Colin, 42, 179, 209
Coal, 11, 136
 deposits in Britain, 43
 exports, 139, 142, 143, 146
 minimum prices fixed, 68
 nationalization of, 64
 output, 147
Coal Mines Act (1930), 68
Coalmining, availability of labour, 193
 unemployment in, 83
Communications, affecting expansion of markets, 53, 72
Co-operative Societies, 61, 99, 104–6
Co-operative Wholesale Societies, 106
Corn Laws, repeal of, 159
Cost of labour, effects of, 179
Cost of Living Index, 120, 121, 122, 123
 Interim Index of Retail Prices (1947), 123, 124, 125, 212
Cotton, 10, 11, 139, 142

Cripps, Sir Stafford, 151
Crops (food), 10
Currency, 132, 150 ff., 162

Death duties, 208–11
Debentures, 57
Defence services, 37
Department stores, 99
  average turnover, 99
  extension of markets, 102
  variety of choice, 101
Depressed areas, 79, 81, 90
Depression (1931), 142
Devaluation, 151, 152
Development areas, *see* Depressed areas
Development Councils, 70
Diet, diversity of, 138
Distribution of goods, 30 ff.
Distribution of Industry Act (1945), 90
Domestic service, 187

Economic behaviour, 15
Economic laws, 14, 15
Economics, definition of, 13
  personal application, 9, 12, 13, 14
Economists, 15, 16, 17
Education, 28, 30, 32, 36, 149, 201, 203
'Elastic' demands, 23, 25, 26, 177
Elections, 12
Electricity, 11, 74, 142, 158
Empire, preferential treatment of, 161
Employees, privileges of, 172
Employment, fluctuation in, 215 ff.
  full, 148
  policy, 222 ff.
Employment, sex differentiation in, 189 ff.
  social distinctions in, 172, 173
  White papers on, 90, 217
Employment Exchanges, 81
Equal pay, 188–98
  Royal Commission on, 189, 191, 198
Exchange Equalization Accounts, 153
Expenditure, Government, 204
Exports, 131 ff., 139, 140
  expansion of, 146, 147, 183, 184
  invisible, 139 ff.

Factory legislation, 88
Family allowances, 192
Fashion, in relation to industry, 52, 53
  influence on mass production, 74, 75
'Five Towns', 48, 49
Food, Ministry of, 28, 70
  production, 9, 10
Foreign exchange, 150 ff.
  competition of, 154, 159, 160
  control of, 162 ff.
Free trade, 15, 51, 154 ff.
Fuel and Power, Ministry of, 70

General Post Office, 59
Gold standard, 153, 154, 160

Health services, 32, 36, 149, 171, 201
Holidays with pay, 54, 171
Hospitals, 29
Household equipment, 9, 53

Import Duties Act (1932), 160, 161
Imports, 131 ff., 136 ff.
  classes of, 136 ff
  food, 137, 138
  raw materials, 139
  restriction of, 33, 159, 160, 161, 164, 165
Income, national, 142, 143, 145, 204
  annual estimate, 166, 167
  distribution of, 47
  White Paper (1949), 212, 213
Incomes, personal, addition to, 100
  distribution of, 166
  effect on markets, 54
  from 'civic rights', 200 ff.
  from property, 199, 200
  from work, 168 ff., 188–98
  increase in, 54, 125, 195, 196
  inequality of, 30, 32, 33
  purchasing power, 41
  White Paper (1948), 116
Incomes, 'social', 167, 168
Industrial estate companies, *see* Trading estates
Industrial Transference Board, 81
Industries, British, reduced market for, 142, 143
  control of, 86 ff.
  export, 75, 79, 80
  nationalization of, 54, 64
  subsidiary, 87, 88
see also Location of Industry; New Industries
Industry, amalgamation in, 65, 66, 68
  capital for development, 209
  dependence on foreign supplies, 138
  incentive, 46
Industry, instability of conditions, 52, 53
  mechanization in, 43, 44
  negotiating bodies in, 65, 66
  Organization (Act of 1947), 69, 70
  revision of methods, 46
  seasonal changes, 226, 227, 228, 229
  structure of, 50 ff., 229
  subsidies in, 162, 163
see also Location of Industry; New Industries
'Inelastic' demands, 23, 24, 25, 26, 144, 157, 206
Inflation, 116
International Monetary Fund, 154
International Trade Organization, 165
Investments, overseas, 144
Iron, deposits in Britain, 43

Joint stock companies, 55, 56, 57, 58, 59, 209

Labour, availability of, 29, 45, 46, 183, 184, 185, 193, 215
  affected by mass production, 75, 76
  control of, 185
  distribution of, 14, 15, 227
  migration of, 80, 81
  Ministry of, 123, 181
Land, reclamation of, 90
Leisure, value of, 186
Lend-Lease, 145
Location of Industry, 71 ff.
  control in, 79, 86 ff.

Location of Industry, effect on distribution of population, 75, 76
growth of subsidiaries, 78
influence on employment, 91
light, 87
statistics, 91
see also Industries; New Industries
London Passenger Transport Board, 195
Luxuries, definition of, 24, 25, 33, 101, 123, 138, 206

Manufactured goods, 136 ff., 230
distribution of, 72, 93, 94
estimate of markets, 26, 27, 28, 30, 51, 79
growth of, 158
limitation of design, 66, 67
Manufacturers, and the wholesaler, 106
Marketing, 107, 108
Markets, 26, 27, 30, 51, 52, 79, 93 ff., 147, 217 ff.
control of, 217
extension of, 53, 54, 72, 221, 222
overseas, 148
shrinking of, 69
Marshall Aid, 131, 140, 146, 149, 150, 161
Mass production, 52, 194
effect on prices, 24, 122
effect on standard of life, 122
technical improvements in, 74
McKenna Duties (1915), 160
Means Test, 203
Mechanization, 144, 194
Money, cheques, 126 ff.
coins and notes, 127 ff.
functions of, 116–19
Money, value of, 119 ff.
values, 39, 40, 41, 42
Monopolies, 12, 63–6, 69, 114, 115
Monopoly (Enquiry and Control Act, 1948), 69
Commission, 69
Multiple stores, 99, 103, 107
Munitions, 29, 91, 144, 184

National Coal Board, 60
National economy, 11, 12
National Institute of Houseworkers, 188
National Insurance, 141, 201, 202, 203
National Insurance Acts (1948), 202, 203
National Investment Board, 225
National resources, 136, 137
Necessities, definition of, 23, 24, 32, 33, 47, 48, 54, 206
New industries, 221
development of, 75
factory layout in, 183
growth of, 89, 90
protection of, 159
see also Industries; Location of Industry

Occupation, choice of, 183–88
Ottawa Agreement Act, 161

Parks, public, 30
Parliament, responsibility for public corporations, 60, 61
Personal savings, 219 ff.
Personal tastes, 20, 21, 22, 23, 47, 54, 123, 124

Planned economy, 16, 18 ff., 27, 28, 29
Planning authorities, duty of, 90, 91
Plastics, 11
Politics, in foreign trade, 134, 135
Poor Law, 200
Population, effect on imports, 137
  increase in, 80
  industrial, 89
  of Britain, 75
  transfer of, 80, 81, 84, 85
Poverty, definition of, 47, 48, 49
  resulting from industrial depression, 79
  statistics, 48, 49
Prefabricated houses, 72
Price Associations, 217
Price control, 201, 202
Price economy, 18 ff., 21, 23, 156
Price system, as a measure of relative values, 33, 34
Prices, 150, 151, 152
  fall in, 144
  fluctuation of, 9, 11, 22, 23, 24, 26, 29, 66, 126, 152, 153
  inflation of, 116, 184
  settlement of, 12, 64
  significance, 26
Primitive tools, 43, 44
Private enterprise, 16, 59, 60, 225
  legislation concerning, 88
see also Joint stock companies; Private ownership
Private ownership, 54–59
Production, 9, 10, 11, 12
  competitive, 12, 26
  costs of, 151, 176
  economy in, 67
  efficiency of, 12
  factors affecting, 26, 27
  fluctuations in, 215 ff.
Production, foreign, 12
  home, 12
  instability in, 111
  specialization, 133, 137
Productive resources, 18 ff.
Productivity, 49 ff., 144
Products, classification of, 107, 108
  variety of, 94, 95
  wholesale distribution of, 107
Property, 199 ff.
Public authorities, expenditure, 223 ff.
Public Corporations, 60, 61
Public enterprise, 59, 60, 61
Public libraries, 29
Public ownership, policy, 37, 38, 209
Public services, 29, 63, 64, 90, 203
Purchase tax, 66, 206

Rates, 29, 79
'Rationalization', 69
Rationing, 18, 19, 29, 31, 32, 65
Raw materials, development of, 19, 20, 43
  export of, 139
  fall in price, 144
  importation of, 137, 138, 140
  natural resources of, 19, 20, 42, 43
  purchase of, 125
  rationing of, 65
  transport of, 73
Refrigeration, 137
Refrigerators, 11
Retail Prices Index, *see* Cost of Living Index
Roosevelt, Franklin D., 145
Rowntree, Seebohm, 48
Royal Mint, 127

Safeguarding of Industries Acts (1921–26), 160
Scarcity of supplies, 9, 19
Science, effect on domestic economy, 11, 19, 47
Security, importance of, 15, 210, 211, 217
Self-sufficiency, 9, 10, 17, 18, 138
Shareholders, 56, 57, 58, 59
Shipping, 140, 144
Ships, 40, 86
Shopkeeper, problems of the, 95, 96
Shops, cash and carry system, 98
  credit system, 98
  self-service system, 97
  retail, 94 ff.
Skilled work, 193, 194
Smith, Sidney, 155
Social benefits, 149
Social forces, 13
Social services, 201, 202, 203, 214
Social values, 13–15, 45
Special areas, *see* Depressed areas
Specialization, 10, 11, 77, 78, 79, 93, 137, 226
Standard of living, 24, 47, 48, 49, 53, 54, 148, 149
Staple foods, 24
State 'benefits', 167, 168, 201
State control, 29, 30, 34, 35, 36, 60, 61, 89, 90, 91, 92, 225
State schools, 29
Stock Exchange, 58
Subsidies, 162, 163, 179, 201, 202
Supplies, 9, 10, 12, 53, 54
Supply, Ministry of, 70
Supply and demand, 10, 11, 18 ff., 53, 54, 67, 217, 218 ff.

Tariffs, 16, 52, 65, 136, 154 ff.
Taxation, method of, 204, 205
Taxes, 204 ff.
  direct, 205, 213, 214
  indirect, 206 ff., 212, 213
  payment of, 29, 60, 130, 168, 179
Technical equipment, 45
Technical institutes, 78
Techniques, 38, 51, 52, 143, 178, 221
Technological experiment, 46
Textiles, 11, 40, 52, 53, 138, 139, 141, 142
Timber, 138
Tobacco, 33, 100, 151
Tourist trade, 43, 140
Town and Country Planning Act (1947), 91, 92
Town Planning, 84
Trade, 39, 40
  British policy, 136, 137, 138, 159 ff.
  by barter, 117, 118, 119
  competition in, 61, 66, 131 ff.
  currency problems, 134
  domestic, 132 ff.
  effect of war on, 134
  international, 132, 133 ff., 162
  monopoly in, 61, 62, 63, 64
  multilateral, 152, 153
  political aspects, 134, 135
  rise of new markets, 76
Trade Boards, *see* Wages Councils
Trade 'cycles', 216
Trade Unions, 66, 172, 173, 174, 181, 189
  influence of women in, 175
  organized workers, 175, 180, 181
  policy, 217
Trading estates (industrial estates), 81, 82, 90
Transport, 38, 51, 63, 64, 72, 137, 158

Unemployment, 11, 48, 79, 80, 81, 83, 84, 122, 143, 148, 162, 178, 183, 187, 202, 215, 216, 217
Unemployment insurance, 178
Unit shops, 99, 100 ff.
United States of America, 10, 150, 153, 154, 160
  cost of living, 41
  dollar gap, 33
  establishment of industries, 45, 46
  incomes, personal, 41
  industrial output, 43
  industrialists, 45
  manufacturers, 51, 52
  social forces, 13
  'trustbusting' legislation, 69
  war materials supplied by, 145
see also Lend-Lease; Marshall Aid
Utility goods, 66

Wage rates, 124, 169, 170
  disputes over, 176, 177
  increase in, 184
  influences on, 122
  in industry, 196
  methods of settling, 172 ff.
Wage rates, overtime, 207, 208
  statutory fixing, 180 ff.
  where Government is the employer, 197, 198
Wages, determination of, 192, 193
  fluctuation in, 11, 14
  increases in, 116, 148
  national, 182 ff.
Wages Boards, 180
Wages Councils (Trade Boards), 180 ff.
Wages Councils Act, 181, 182
War, effects of, 9, 29, 46, 65, 132, 134, 142, 183
  manpower problems, 194, 195
  materials from U.S.A., 145
  transition to peace economy, 146–7
War factories, 91, 184
Wealth, effect on imports, 138, 139
  inheritance of, 200, 208
  national, 39 ff.
  world, distribution of, 41, 42
Wedgwood, Josiah, 210
Works, Ministry of, 70

York, conditions of poverty in, 48

GRAMASEVAKS TRAINING CENTRE
16 APR 1955
T. KALLUPATTI

A New Pelican

THE CHEMICAL INDUSTRY

T. I. WILLIAMS

A 282

Although the chemical industry is of fundamental importance, in that almost all other industries depend on it for their raw materials, it is one of which the general public knows little or nothing. This is all the more surprising in view of the fact that the British chemical industry gives employment to about half a million people, produces over 14 million tons of products a year, and has an annual turnover of some £600 million.

This book is an attempt to show how this very complex industry has developed, how it is organized to-day, how it fits into the national economy, and how, although so little known, it affects almost every phase of daily life. It shows how, from comparatively few raw materials, principally coal, oil, air, water, sulphur, lime, and salt, chemists can prepare thousands of most varied products – dyes, drugs, fertilizers, acids, soda, plastics, bleach, explosives, and a host of others.

2*s* 6*d*

PUBLISHED BY PENGUIN BOOKS

Robin Adler

Mrs Williams has spent her working life (with the exception of some of the war years) as a member of the staff of Bedford College, University of London, where she is Reader in Social Economics. During the war she was Public Relations Officer at the Ministry of Hóme Security, specially concerned with Civil Defence safety measures. Later she went to the Ministry of Labour and National Service, where she was responsible for the mobilization of women for the A.T.S., W.A.A.F., and W.R.N.S. She has done a considerable amount of work on Government bodies and is now Independent Member of one of the Catering Wages Boards as well as of several Wages Councils which fix statutory wage rates for different industries. She has sat on numerous Commissions of Enquiry (set up by the Ministry of Labour) to investigate the wage-negotiating machinery of various industries. Since the war she has lectured widely in Jamaica, Denmark, Germany, and U.S.A. for the Colonial Office, the Foreign Office, and the British Council. In addition to numerous articles and pamphlets, she has written many books on socio-economic subjects, of which the best known are: *The State and the Standard of Living*, *The Price of Social Security – a Study of Labour Mobility*, and *Women and Work*.

PUBLISHED BY PENGUIN BOOKS